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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

<sup>Hearings</sup>  
REPORT OF PROCEEDINGS

[British Columbia]

Vol. 1. Pt. 1-2

MAR 16 1938 - March 17, 1938

REPORTERS:

George Thompson  
John Robertson  
David Torry

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VICTORIA, BRITISH COLUMBIA, MARCH 16, 1938

LIST OF REPRESENTATIONS BY THE PROVINCE OF  
BRITISH COLUMBIA

Page

HON. T. D. PATTULLO, K. C. 4831 - 4869

HON. J. W. deB. FARRIS, K. C. 4869 - 4966

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VICTORIA, BRITISH COLUMBIA, MARCH 16, 1938

LIST OF EXHIBITS

	<u>Page</u>
Exhibit 172:- Brief submitted by the Government of the Province of British Columbia (PART I to VII incl.)	4966





VICTORIA, BRITISH COLUMBIA, MARCH 16, 1938.

TOPICAL INDEX

Page.

PATTULLO, HON. T.D. (Premier of British Columbia)

Address of Welcome 4831

Description of the  
various parts of the  
brief to be submitted 4832-  
4834

Recommendation that  
power should rest in  
the Parliament of  
Canada to amend the  
B.N.A. Act 4835

THE CHAIRMAN:  
Proposition outlined  
at provincial conference  
at Ottawa as a basis  
for amendments to the  
B.N.A. Act 4835

Recommendation that the  
terms under which British  
Columbia entered Confed-  
eration be revised 4837

Recommendation that  
each province have the  
right of review of its  
position in Confederation  
quinquennially 4837

THE CHAIRMAN:  
Australian Grants  
Commission 4838

Recommendation that  
inequalities arising  
from the application of  
tariff and freight rates  
be adjusted 4839

Recommendation regarding  
income tax 4839  
4840

Recommendation that the  
provinces be granted  
authority to raise their  
own revenues by whatever  
means deemed necessary 4840

THE CHAIRMAN:  
Difficulties involved  
in granting unlimited  
rights of taxation to  
the provinces 4842



PATTULLO, HON. T.D. (CONT'D.)

	Recommendation that the debt structure of the provinces be reviewed	4842
THE CHAIRMAN:		
Municipalities a responsibility of the provinces		4843
Loan council		4843
Suggestion made in Manitoba that the Dominion take over the portion of the provincial debt represented by the annual subsidy		4844
	Recommendation that responsibility for costs of old age pensions and mothers' allowances should rest upon Dominion	4845
THE CHAIRMAN:		
Difficulties involved in Dominion administration of old age pensions		4845 4846
Mothers' allowances a provincial responsibility		4846
	Recommendation that the Dominion exercise jurisdiction over unemployment insurance	4847
	Recommendation that authority be granted the Dominion to enact legislation to regulate wages, hours of work and conditions of labour	4848
	Recommendation that the Dominion and provinces cooperate more fully in matters of education	4849
THE CHAIRMAN:		
Desirability of the Dominion assuming primary responsibility for education		4850
	Recommendation that the Dominion and provinces cooperate in health and welfare services	4851





PATTULLO, HON. T.D. (CONT'D.)

## THE CHAIRMAN:

The term "more uniform system" in regard to education.

4851

WEIR, HON. G.M. (Minister of Education)

Establishment of a Bureau of Education; uniform system of school accounting

4852

Recommendation that the Dominion take the lead in obtaining uniform residence rules for every province in Canada

4853

## THE CHAIRMAN:

Charging unemployment relief of an individual to the municipality from which he comes

4854

Dominion jurisdiction over relief necessary before residence rules established

4854

Recommendation that necessitous public works be undertaken as a means of unemployment relief

4855

Recommendation that Dominion share with the province cost of Trans-Canada Highways

4855

## THE CHAIRMAN:

Roads leading to national parks

4855A

Unemployment relief project at Big Bend Road

4855B

Recommendation that Dominion assistance in the construction of roads be continued; that the work of the Geological Survey of Canada in British Columbia be continued more aggressively

4856

Recommendation that the Pacific Great Eastern Railway be absorbed by the two national railways

4857

Recommendation regarding financial position of municipalities

4857





PATTULLO, HON. T.D. (CONT'D.)

THE CHAIRMAN:  
 Limited number of  
 municipalities in B.C. 4858

Extent to which rural  
 areas in B.C. organized  
 under municipalities 4858

Recommendation that  
 oriental immigration  
 into Canada be pro-  
 hibited 4858

"Bootlegging of Japs" 4859

THE CHAIRMAN:  
 Oriental immigration  
 a question of Dominion  
 Government policy 4859

Recommendation that  
 the Dominion cooperate  
 with province in the  
 responsibility for the  
 problem of the Doukhobors 4859

Recommendation that the  
 inspection of fruits,  
 vegetables and honey be  
 under federal jurisdic-  
 tion 4860

Recommendation that the  
 supervision of the dis-  
 posal of elevator grain  
 screenings be a federal  
 responsibility 4860

THE CHAIRMAN:  
 Question re the  
 inspection of fruits  
 and vegetables 4860

MACDONALD, HON. K.C. (Minister of Agriculture)

Suggestion that the  
 Dominion assume full  
 responsibility for its  
 own regulations in regard  
 to grading in order to  
 prevent overlapping 4861

THE CHAIRMAN:  
 "Supervision of the  
 disposal of elevator  
 grain screenings" 4862



PATTULLO, HON. T.D. (CONTINUING)

Recommendation that the provinces should have control of the packing, storing and transporting within their boundaries of commodities intended for interprovincial trade 4862

THE CHAIRMAN:

Question re recommendation that the provinces control packing, etc., of commodities 4862

MACDONALD, HON. K.C.

Collection of revenue by way of licenses 4863

Collection of merchandizing charge on milk 4863

Necessity for control of commodities produced in the province 4864

PATTULLO, HON. T.D. (CONTINUING)

Recommendation that the authority of the Dominion with regard to bankruptcy laws be restated 4865

THE CHAIRMAN:

Amendment of Farmer's Creditors Arrangement Act 4866

Recommendation that jurisdictions now in doubt should be placed beyond question so far as language may be able to attain that end 4867

THE CHAIRMAN:

Sections of the B.N.A. Act in need of clarification 4867

Dominion subsidy of \$750,000 to B.C. 4869

FARRIS, HON. J.W. de B. (COUNSEL)

Need for general revision of the financial relationship between Dominion and provinces 4869  
4870

Increase in the duties and functions of provincial governments 4871



FARRIS, HON. J.W. de B. (CONT'D.)

Increased provincial obligations in connection with unemployment	4871
Inadequacy of provisions made to meet new burdens on the provinces	4871
Federal grants to the provinces	4872
THE CHAIRMAN: Question re sound governing principles for readjustment of relations	4873
Provincial taxing powers	4874
THE CHAIRMAN: Licence fees	4875
Direct and indirect taxes in British Columbia	4876
Special claims of British Columbia	4883
THE CHAIRMAN: Possibility of other provinces claiming inequalities by reason of grant to B.C.	4884
Burdens imposed upon B.C. by Confederation	4886
Inadequacy of grant allowances	4887
Grant allowances made without due consideration of physical features of the province	4887
Contribution made by B.C. to Confederation excessive	4887
Inequity of federal subsidies and allowances	4887
Federal income tax excessive	4888
Impossibility of meeting costs of administration of government and debt obligations without increasing taxation	4888
Financial arrangements made on entry of B.C. into Confederation	4889 4895





FARRIS, HON. J.W. de B. (CONT'D.)

## THE CHAIRMAN:

Request made by B.C.  
on entering Confeder-  
ation for a railway

4890

Sir Charles Tupper on  
the financial clauses  
of the B.N.A. Act

4897

## THE CHAIRMAN:

Statement of Sir  
John A. MacDonald  
that the B.N.A. Act  
could not be changed

4897

## COMMISSIONER DAFOE:

Explanation for high  
tariff in British  
Columbia in 1869

4898

Per capita income derived  
from importations in  
various Canadian provinces  
in 1935-36

4899

Fictitious assumption of  
population in British  
Columbia on entering Con-  
federation

4901

## THE CHAIRMAN:

Allowance made to  
B.C. for turning over  
lands to assist in  
construction of  
railway

4901

Special bonus granted  
B.C. in 1884

4903

Settlements made in  
the past factors to  
be taken into account  
at the present time

4904

Delegation headed by  
Hon. James Dunsmuir in  
1900

4910

Statement of Hon. James  
Dunsmuir concerning  
importance of Canadian  
National Railway

4911

Revenues obtained from  
B.C. by the Dominion  
Government from 1872 to  
1901

4912

Delegation to Ottawa  
in 1903 headed by Hon.  
E.G. Prior

4913



FARRIS, HON. J.W. de B. (CONT'D.)

## THE CHAIRMAN:

Provisions requested  
under terms of union  
which were not granted  
to B.C.

4915

Grant of \$100,000 at  
time of union in con-  
sideration for Crown  
lands

4916

4917

CARROTHERS, DR. W.A. (Chairman, Economic Council  
of British Columbia)

Special difficulties of  
British Columbia

4917

Delegation to Ottawa  
in 1903

4918

Statement of Hon. Richard  
McBride concerning  
separate arrangements  
for British Columbia

4920

Statement of British  
Columbia's case made in  
1905

4921

FARRIS, HON. J.W. de B. (CONTINUING)

Conference held in 1906  
between provincial and  
Dominion governments

4922

Decision of Conference  
of 1906 to grant B.C.  
\$125,000 annually for ten  
years

4923

Statement of Hon. James  
McBride with regard to  
amendments to B.N.A. Act  
concerning grants to B.C.

4923

## COMMISSIONER DAFOE:

Representations made  
by Hon. James McBride  
in London

4924

Delegation to Ottawa  
in 1911

4926

Appointment of a Royal  
Commission to investigate  
claims of B.C. prior to  
Great War

4926

Memorandum Respecting  
Claims of British Columbia  
for Better Terms

4927

4929



FARRIS, HON. J.W. de B. (CONT'D.)

## THE CHAIRMAN:

Re impossibility of  
accepting as correct  
statements appearing  
in memorandum respect-  
ing claims of B.C.

Settlement Act 4932

Contribution made by  
British Columbia to the  
building of the Canadian  
Pacific Railway 4933

## COMMISSIONER DAFOE:

Building of Canadian  
Pacific Railway a burden  
intended to be put on  
Western provinces 4934

Estimated expenditures  
and receipts in B.C.  
discussed in the Memo-  
randum Respecting Claims  
of B.C. 4935  
4937

Conference on Taxation  
at Ottawa in 1924 4938

Claim for readjustment  
of the Terms of Union  
made by B.C. in 1927 4939  
4940

Representations made  
by British Columbia in  
1934 4940

## THE CHAIRMAN:

Question re the  
interim subsidy of  
\$750,000 to B.C. 4941

Detailed consideration  
of reasons for readjust-  
ment for British Columbia 4943

Inadequacy of grant  
allowances from Dominion 4944

## THE CHAIRMAN:

Administration of  
Liquor Control Act  
in B.C. 4945

Compulsory duties  
imposed by provincial  
statute upon municip-  
alities 4945

Voluntary powers of the  
city and district municip-  
alities 4946





FARRIS, HON. J.W. de B. (CONT'D.)

Figures illustrating that grants are not in proportion to the services assumed by British Columbia	4947
THE CHAIRMAN: Comparison of figures corresponding with other provinces	4948
That the percentage of grants to the total expenditure has changed in all the provinces	4949
Statement of Sir Alexander Galt in reference to provincial expenditures	4950
THE CHAIRMAN: Provinces envisaged by Fathers of Confederation as exercising narrower functions than they now exercise	4951
Failure of the framers of Confederation to envisage the development of social obligations in Canada	4951
The phrase "for the purpose of meeting their local expenditures" in a statement by Sir Alexander Galt	4953
Social Services	4954
THE CHAIRMAN: Aid of Youth Employment	4954
Medical Services	4955
THE CHAIRMAN: "Resident Physicians"	4956
Health Insurance	4956
Increase in the cost of social services during 1936-36	4957
Increase in Old Age Pensions	4957
Mothers' Allowances	4957
Unemployment relief figures	4958



FARRIS, HON. J.W. de B. (CONT'D.)

## THE CHAIRMAN:

Basis upon which the  
Dominion contributed  
to unemployment relief  
in 1921 and 1922

4958

Cost of education

4959

## THE CHAIRMAN:

Cost of education in  
relation to population  
in British Columbia

4959

Expenditures in the  
Administration of  
Justice

4961

Statement made by  
Sir Wilfrid Laurier  
in 1907

4962

4963

Inconsistency between  
the grants and expend-  
itures of today and  
those of 1870

4964

## THE CHAIRMAN:

Commission appointed  
on the basis that the  
functions of government  
are so increased that  
readjustment should be  
considered

4965



## ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

VICTORIA, BRITISH COLUMBIA, MARCH 16, 1938.

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Parliament Buildings, Victoria, British Columbia, on Wednesday, March 16, 1938, at 10:30 A.M.

PRESENT :

HON. CHIEF JUSTICE NEWTON W. ROWELL, .... CHAIRMAN.

DR. JOSEPH SIROIS	)	
JOHN W. DAFOE, Esq.,	)	
DR. ROBERT ALEXANDER MacKAY,	)	Commissioners
PROFESSOR HENRY FORBES ANGUS	)	

Commission Counsel :

James McGregor Stewart, Esq., K.C.

Secretariat:

Adjutor Savard, Esq.,	Acting Secretary
R.M. Fowler, Esq.,	Legal Secretary
Wilfrid Eggleston, Esq.,	Assistant to the Secretary

FOR THE GOVERNMENT OF BRITISH COLUMBIA:

Hon. Thomas Dufferin Pattullo, K.C., LL.D.,	Premier,
	President of the Executive Council
Hon. G.M. Weir, B.A., M.A., D.Paed.,	Minister of Education,
	Provincial Secretary
Hon. G.S. Wisner, K.C.,	Attorney General
Hon. A.W. Gray,	Minister of Lands, Minister of Municipal Affairs
Hon. John Hart,	Minister of Finance
Hon. K.C. MacDonald,	Minister of Agriculture
Hon. F.M. MacPherson,	Minister of Public Works
Hon. J.W. deB. Farris, K.C.	Counsel
Dr. W.A. Carrothers,	Chairman of the Economic Council.





Parliament Buildings  
Victoria, B.C.,  
March 16, 1938.

MORNING SESSION

ADDRESS OF WELCOME

HON. T.D. PATTULLO, Premier of British Columbia:

Mr. Chairman: I would like to extend to your Lordship and the other members of the Commission the greetings and felicitations of the people of British Columbia.

"The importance of the work devolving upon your Commission is, I think, generally appreciated by our people.

Over a period of time there has come about a general belief that Canada has outgrown in many respects the Terms of Union, and that the constituent parts of Canada, in the light of developments, are unable adequately to fulfil the functions and responsibilities placed upon them under the Terms of Union.

It appears, therefore, that the Dominion Government has very wisely appointed your Royal Commission to investigate the many problems confronting the Provinces and the Dominion, in the hope that with all the facts placed in definite and concrete form, determination may be made to meet the requirements of sound public economy.

Discovery and invention, and political, as well as economic, developments have affected in very marked degree the mental attitude of our people toward affairs governmentally. Governments have had to assume additional and new responsibilities with consequent increasing cost of governmental services. The many changes that have come about work with



specialty severity upon provincial governments.

The Provinces find revenues inadequate to meet responsibilities, and with inadequate sources of revenue many municipalities find the burden greater than taxable property can bear.

It should be the desire of the Provinces and of the Dominion that in the final analysis the Provinces shall be placed in a position that they shall be able to function within the measure of their jurisdictions, without recourse to the Dominion Government for financial assistance, other than in such measures as may be agreed upon.

Whatever finality may be, it should be such as to place jurisdictions beyond doubt so far as language can attain that end, and financial provision should be such as to permit of complete functioning in that regard.

In order to assist your Commission in this work a submission has been prepared on behalf of the Province of British Columbia, which is in essence a study of the economic anatomy of the Province as part of the Canadian Confederation. Every attempt has been made in this analysis to get at the real facts of the situation insofar as information is available, in order to disclose to your Commission as far as possible the actual position of British Columbia.

Part II. of the submission gives a statement of the position of British Columbia in the Canadian Confederation since 1871 and indicates the inadequacy of the original arrangements for the entry of British Columbia into the Canadian Confederation.



The continuous dissatisfaction with these arrangements leading to appeals for redress is evidenced. It is here submitted that British Columbia has been subject to unequal treatment in the Confederation.

Part III is an analysis of the population and resources of the Province with a view to disclosing the peculiar nature of these resources and the problems involved in their exploitation.

Part IV deals with the functions of government, particularly in the matter of social services and the cost of these services. The growing burden of responsibility placed upon the Provincial Government in this respect is here outlined.

Part V deals with taxation or the methods by which the Government secures the revenue to finance the services which it renders to the community. Information will here be found with regard to the revenue secured in this Province by the Dominion Government as well as the Province and the Municipalities, which will give a clear indication of the burdens which Confederation places on the Province in this respect.

Part VI deals with the effect of Canada's national trade and tariff and monetary policy on British Columbia. The peculiar market position of British Columbia is outlined, showing that in the main the people of British Columbia have to buy in a protected market and sell in a competitive market. It is shown that on the basis of real exchange of commodities the citizens of British Columbia lose because of this market situation.





The effect of the national trade and tariff policy on the transportation problems of British Columbia is also outlined, indicating that this community, because of this policy, is burdened with an unduly large share of the support of our national railway system.

Part VII contains suggestions with regard to modifications that may be made in the relations of the Province to the Dominion which might be taken as a basis for discussion as between the Province of British Columbia and the Dominion of Canada.

In addition to the items indicated, there are numerous other matters which should form the basis of discussion as between the Provinces and the Dominion. Only by discussion can common ground be reached. Opinions may change or be modified in the light of deliberations. In other words, the problem must be approached in a spirit of give and take for mutual advantage and the attainment of lasting benefit to our country."

Mr. Chairman, instead of following with part 2, we thought it advisable that I should now read part 7, because it contains the recommendations or suggestions of the government of British Columbia.

THE CHAIRMAN: That is quite agreeable to the commission.

HON. MR. PATTELLO: I think it might be informative to the Commission as well as to the public who are following these proceedings somewhat closely.

"I would like to summarize the suggestions of British Columbia with regard to the subject matter of the investigations of your commission, and to indicate the desirability of improving old and



establishing new relationships as between the jurisdictions and administrations of the provinces and the Dominion."

I might say, sir, that most of the recommendations made here will be amplified with factual information as well as argument which will be presented by counsel for the province of British Columbia. However, there are some instances where that is not the case. There are one or two matters dealt with in these recommendations, which are given not with the idea that the commission would be able to act upon them as they might not be within the scope of the Commission. In this connection there are such questions as the oriental question and the Doukhobours. I hardly think it was contemplated in setting up the terms of this commission that such things should be considered, but I inserted them for this reason; they are in the public mind in British Columbia. They affect the welfare of British Columbia and in that regard they affect the welfare of the whole Dominion. It is for this reason that I think your Commission should be informed in regard to them, as well as the fact that the public of British Columbia is intensely interested in these two matters.

" 1. Power should rest in the Parliament of Canada to amend the British North America Act upon a basis to be agreed between the Provinces and the Dominion."

I presume, sir, the members of your commission are aware of the fact that several conferences have been held at Ottawa within recent years. It was my duty, as well as pleasure, to attend everyone of those conferences. Upon one occasion a committee of the conference was appointed consisting of the Hon. Minister of Justice and the Attorneys-general of the various provinces, to see if it was not possible to work out a formula by which the constitution



could be amended. I know there is a substantial portion of opinion favouring the amendment being made in London, as at present, while on the other hand I think there is some opinion in favour of having the constitution amended by Canada itself. This committee did sit, I think, for several days, but had great difficulty in securing agreement among the majority of the provinces. However, I think they did arrive at a formula, although it was not satisfactory to everybody. My recollection is that one or two of the provinces particularly objected and the matter was not proceeded with. The government of British Columbia is in favour of the amendment of the Constitution within Canada itself on a basis to be arranged. Mr. Lapointe, the Minister of Justice, according to press reports, suggested this question might be taken up at the coming session of parliament, but I have not noticed that parliament is dealing with it.

THE CHAIRMAN: When we were sitting in Saskatchewan, the Attorney-General brought to our attention the deliberations of the committee to which you have referred and filed as an exhibit a statement showing the results they had achieved. Do I understand that the view of this government is, generally speaking, that the proposition as outlined at that conference should be the basis upon which amendments to the B.N.A. Act should be worked out.

HON. MR. PATTULLO: I would have to answer that with reservations. Our Attorney-General was a party to that conference at the time, but perhaps intimate consideration was not given by our government because of the disagreement which occurred.

THE CHAIRMAN: Yes, but it is that plan -- not committing yourself in detail -- it is a plan along the general lines discussed which you have in view.



HON. MR. PATTULLO: Yes, that is right.

" 2. The special position of British Columbia in the Confederation of Canada should receive immediate consideration and the terms upon which British Columbia entered into Confederation adjusted in order that British Columbia may be in a position of equality with the other Provinces of Canada when considering new adjustments and relationships in Dominion and Provincial authority."

I do not think I need to go into that question as it will be dealt with by Counsel.

" 3. Each Province should have the right of review of its position in Confederation quinquennially in order that no Province shall be placed in disadvantageous position in relation to the Dominion as a whole be reason of conditions over which it has no control."

In that regard Counsel may not go into the question to any length. I will not go into it at great length, either, as it may be more desirous to go more fully into this question after the commission hearing. Economic conditions may arise which would prejudice the position of one province, and it is for this reason I think the province should have the right to have their case reviewed. I do not think it is a healthy condition for any one province to have a grievance. In considering this, we must assume that no province will submit a frivolous case, but if a frivolous case should be submitted, it should be dealt with in the proper manner. I noticed an item submitted by one of the other provinces favouring such a course.

THE CHAIRMAN: Have you in mind something like the Grants Commission in Australia?





HON. MR. PATTULLO: As a matter of fact, Mr. Chairman, I am not familiar with that plan.

THE CHAIRMAN: Under this plan an independent, impartial commission is set up to review the application of any province for special consideration by reason of exceptional conditions. This commission makes recommendations to the government after it has examined the case presented by the particular state.

HON. MR. PATTULLO: It might well be that the federal government would prefer such a plan as that. Sometimes, I like, myself, to get at close quarters with the government itself. If all governments were as this government, it would be very easy.

THE CHAIRMAN: Is there any danger that your suggestion involves political pressure?

HON. MR. PATTULLO: Well, it may.

THE CHAIRMAN: If it is dealt with by each province approaching the dominion government when that province feels it is in need, would not that involve continued political pressure upon the Dominion by the province which happened to be in need.

HON. MR. PATTULLO: It might, but on the other hand, if the work of the Commission was not considered satisfactory the Dominion Government would have to accept the responsibility for the report of the commission. We have had a good deal of experience with commissions in this province -- I am not reflecting upon the Honourable Royal Commission.

COMMISSIONER LAFCE: Just one more experience.

THE CHAIRMAN: It is a little too early to pass judgement on that, as yet.

HON. MR. PATTULLO: I will read recommendation No. 4:

" 4. Inequalities and disabilities existing by



reason of the application of the tariff and freight rates should be adjusted."

This is one of the most important representations which our government will make to your honourable body. It is dealt with in very considerable detail in our brief. I will continue now, with No. 5.

" 5. British Columbia first imposed an Income Tax in 1876, and is dependent in very considerable measure upon this source of revenue. The entrance of Canada into the Income Tax field definitely limited this source of revenue to British Columbia, and has placed the Province in very embarrassing position."

THE CHAIRMAN: This will be discussed more fully by Mr. Farris in his presentation of the brief, will it?

HON. MR. PATTULLO: Yes. Continuing, I read the remainder of Item No. 5:

" In order to meet all charges without recourse to borrowing from the Dominion, it is necessary to increase Provincial Income Taxes; yet to do so would, together with Dominion Income Taxes, place a too heavy burden upon our people.

At the time of the imposition of the Dominion Income Tax, protest was made by the then Government of British Columbia. The present Government of British Columbia has for several years deferred increasing the Income Tax while constantly pressing for the appointment of a Royal Commission such as your honourable body. This deference of increase in the Provincial Income Tax forced this Province to borrow from the Dominion, so that the situation now is that the Dominion, through invasion of the Income Tax field, placed this Province in the



position where it must borrow money from the Dominion in order to meet immediate charges including unemployment relief, and interest is now being paid on these borrowings. This situation cannot continue indefinitely. It is imperative that there shall be a readjustment and that the advantageous position which British Columbia occupied be restored.

6. The Provinces should be granted authority to raise their own revenues by whatever means deemed necessary in the light of circumstances and requirements. This, if carried out, would place beyond question all taxes as now levied and would authorize the imposition of other taxes, such, for example, as the business turnover tax or the retail sales tax."

THE CHAIRMAN: Is that dealt with in the brief?

HON. MR. PATTULLO: No, sir, it is not.

THE CHAIRMAN: Would you just develop that a little further so that we might have the benefit of your views upon it? Leaving it as broadly as you have put it there, it would open the whole field of taxation to the province.

HON. MR. PATTULLO: Our government takes the view in connection with all these matters, that there must necessarily be negotiation and deliberation between the province and the Dominion. Today, we know nothing of the position of the Dominion Government, except by reason of the conversations which we have had at various times. We do not know what proposals they may have to make, so I am not able to lay all my cards upon the table as I do not know what the cards are.

THE CHAIRMAN: So you are staking out the largest possible claim, in the language of the mining prospectors.

HON. MR. PATTULLO: May I draw your attention to this;





Representations were made by this government to the government at Ottawa, perhaps more strongly than any other province in the Dominion, the result of which was the introduction into the House of an amendment to the British North America Act which would give the provinces the right to impose a retail sales tax. This provision was thrown out by the Senate. The province must have sufficient revenue to meet the responsibilities devolving upon it; insofar as our government is concerned I want to make it perfectly clear that we do not want to get everything, but we are not quite ready to give everything. In other words, we are willing to sit around a table and see if we cannot work out these problems to the advantage of all concerned.

COMMISSIONER DAFOE: Does not that imply that there should be no division of taxation powers between the Dominion and the provinces, and that it should be a matter of discussion between them, not a matter of law.

HON. MR. PATTULLO: No, it should be in the form of a law; the British North America Act should be changed to give the provinces certain rights of taxation. For example, we are now imposing a gasoline and oil tax which some people say is ultra vires of our jurisdiction. Nobody has questioned it. If I recall correctly, the fuel oil tax was thrown out by the courts. Do you wish any further discussion of that, sir?

THE CHAIRMAN: No, I think you have made your point of view quite clear, Mr. Pattullo. You have just outlined a proposition on which you are prepared to give and take.

HON. MR. PATTULLO: That is the proposal, yes sir.

THE CHAIRMAN: If you were presenting it seriously, that the province should have an unlimited right of taxation, we would like to have a full discussion of it because it involves a very large problem. Such a suggestion would



affect not only the Dominion and the provinces, but it would affect the taxpayers throughout Canada and we are specially instructed to look into the taxation situation. I can quite understand the importance of the province being in a position whereby it collects certain taxes, as it is now doing, upon which some doubt as to the validity of those taxes may be cast. Perhaps the province should have further right of taxation, but when it is suggested the province should have unlimited rights of taxation, it opens up a very much larger question.

HON. MR. PATTULLO: It was purposely made broad because subsequently it may be found necessary to limit it. Had the Dominion Government not entered the income tax field we would not have had to borrow a single dollar from the Dominion.

THE CHAIRMAN: The difficulty now is, where is the Dominion Government to get the revenue with which to carry on the services of the country.

HON. MR. PATTULLO: Perhaps the Dominion Government could collect the nuisance taxes and leave us the income tax.

THE CHAIRMAN: I am afraid the nuisance taxes would not make up a very large item.

HON. MR. PATTULLO: It all depends upon the work of the Dominion Government -- they do now collect a sales tax, and they could probably extend it without much difficulty. If that field were left to us, we would have to collect it. I will read recommendation No. 7:

" 7. It is further suggested that the debt structure of the various Provinces should be reviewed so that conclusions may be reached which, while beneficial to all governments, will not tend to weaken credit positions or the confidence of investors."



THE CHAIRMAN: I do not think that is discussed anywhere in the brief, is it?

HON. MR. PATTULLO: No, sir.

THE CHAIRMAN: Would you kindly enlarge upon that a little.

HON. MR. PATTULLO: The idea of that is that the whole debt structure of the Dominion of Canada, provinces and municipalities, should be taken into consideration. There came before one of the conferences at which this province was represented a proposal for carrying out a refunding programme. The Dominion Government evolved such a plan, but considerations arose which so tied the hands of this province that we could not consent to the plan. However, we do think the whole matter of the debt structure of the provinces and the Dominion, and the Dominion in relation to the provinces as well as the municipalities should come under review again.

THE CHAIRMAN: Let me ask a question upon that; so far as the question arising in reference to the municipalities, is not that a matter which the provinces, being the parents of the municipalities must consider. When it is taken into consideration by the Dominion, it must be taken into consideration as being part of the provincial situation.

HON. MR. MPATTULLO: I think that is correct, sir.

THE CHAIRMAN: Then the situation as between the Dominion and the provinces; is it your suggestion that there should be something like a loan council, such as the one they have in Australia? How would you work out the proposition suggested by refunding? If you have any further suggestions which might throw light upon the subject, we would be very glad to have them. We have had this same question presented in two of the provinces, and if we can



get any further light upon it, we would be glad to have it.

HON. MR. PATTULLO: I think this would also be a matter for discussion with the Dominion. There are innumerable details in connection with it and to say now we favour this plan or that plan I do not believe would be advantageous, as a misconception might go abroad as to what our contentions are.

THE CHAIRMAN: Our difficulty is that we have to make some report and recommendation to the government and we want all the help we can/<sup>get</sup>from the provincial governments.

HON. MR. PATTULLO: I can assure you that we are very anxious to help you, but we have no idea as to what is in the mind of the Dominion Government.

THE CHAIRMAN: We are expected to put something in their mind. We are expected to make a report which will contain suggestions, and in that respect we are anxious to get all the assistance we can. It is admittedly a very difficult and complicated subject. It was suggested in Manitoba that the Dominion should take over such a portion of the debt of the province of Manitoba as would be represented by the annual subsidy, capitalized on a certain basis and that the balance of the provincial debt should be refunded on a certain basis. It appeared obvious, at least it occurred to me, assuming you could get the bondholders to accept the Dominion Government securities for that portion taken over by the Dominion, you could not expect the bondholders to accept provincial securities at a reduced rate of interest for the portion remaining, unless there was some assurance that the province would not get in as bad a financial position in the near future as it had before. In other words, if you are to have a refunding programme, would there not have to be some





guarantee, if you expect the bondholders to accept, that the financial position of the province will not seriously deteriorate, not by the existing government doing anything, but by a change of government.

HON. MR. PATTULLO: I think all those factors would have to be taken into consideration.

THE CHAIRMAN: You cannot help us any further?

HON. MR. PATTULLO: I think not this morning.

THE CHAIRMAN: You want to keep those cards in your pocket?

HON. MR. PATTULLO: I am not just sure what cards I have; I believe they now have a larger deck with sixty-five cards in it. I will now quote from No. 8 of our recommendations:

" 8. Full responsibility should rest upon the Dominion for the costs of Old-age Pensions and Mothers' Allowances."

THE CHAIRMAN: Is that discussed in the Brief?

HON. MR. PATTULLO: Some, but not very much.

THE CHAIRMAN: If that is not to be discussed by Mr. Farris, would you give us your reasons for that statement?

HON. MR. PATTULLO: At the present time, the Dominion Government is paying three-quarters of this cost. Now, we have difficulties in the administration of this Act, by reason of the people moving about the country. It seems to me when people get along in years--perhaps, they want a change of climate or something--they move from one part of the country to the other. This creates no end of trouble, but would not be so troublesome if the administration of the Act was under one authority.

THE CHAIRMAN: There would be, no doubt, a number of



advantages, from certain aspects, in having one authority. There is one difficulty, however, and that is the scale of living varies in the different provinces. At the present time, the amount of the pension is fixed by the province, is it not? The Dominion pays a definite percentage of that amount, 75 per cent. The scale of payments is lower in some provinces than in others. No doubt, this is due, in a measure, to the differences in the cost of living or possibly to the difference in the financial position of the provinces. If the Dominion took it over, might it not be necessary to apply the same scale throughout the whole of Canada, even though the cost of living varied materially in the different provinces of Canada?

HON. MR. PATTULLO: That might be the case, but I do not imagine the amount of the pension would be too much, in any event.

THE CHAIRMAN: The payments seem very small, but the aggregate comes up to a very large amount.

HON. MR. PATTULLO: I might say that in all matters of this kind, we will be glad to cooperate with the Dominion Government to the full.

THE CHAIRMAN: Coming to the question of Mother's Allowances, is that not purely a provincial matter? If a province decides it should have this social service within its boundaries, should the province not pay for it? Why should the Dominion undertake it, some of the provinces may not want it?

HON. MR. PATTULLO: We thought for similar reasons as those which apply to the Old Age Pensions.

THE CHAIRMAN: The mothers would not move around so



much as the old age pensioners, would they?

HON. MR. PATTULLO: Some of them seem to get around very quickly. Shall I proceed, sir?

THE CHAIRMAN: Yes.

HON. MR. PATTULLO: Continuing, I shall read Number 9:

"The Dominion should exercise exclusive jurisdiction over Unemployment Insurance, but it is suggested that before any measure is submitted to the Dominion Parliament, the text thereof be submitted to the Provinces in order that they may have opportunity to make such representations as may be deemed advisable.

The Ottawa government, I believe, is in favour of some form of unemployment insurance, but I understand some of the provinces are not so enthusiastic.

THE CHAIRMAN: You say, the Dominion should exercise exclusive jurisdiction, and I believe you favour the Dominion Government making the necessary amendment to the British North America Act, to enable the government to do it.

HON. MR. PATTULLO: Yes, and I believe the Dominion government has been so advised.

THE CHAIRMAN: This question of which form the unemployment insurance should take, is a question with which parliament must eventually deal, but I should think that the Dominion would be glad to have any representations from the provinces in reference to it.

HON. MR. PATTULLO: There are a number of factors involved, but I think any legislation which might be passed under it should be considered with the provinces in order to iron out the difficulties.





THE CHAIRMAN: There are one or two questions upon which I want to understand your position clearly, Mr. Pattullo. First, there is an amendment to the B.N.A. Act which would give the Dominion the power to deal with this question. The Dominion cannot deal with it now until such an amendment is made. Secondly, there is the form which the insurance bill is to take. Now, it is the form of the bill in which you are interested, as I understand it?

HON. MR. PATTULLO: Before the bill is introduced in parliament we would like to consider any suggestions which might be carried out.

THE CHAIRMAN: That is a matter between you and the Dominion. So far as we are concerned, the question we are called upon to consider is whether there should be an amendment to the B.N.A. Act to give the Dominion government the power to deal with such a matter.

HON. MR. PATTULLO: I believe the last part of that is supererogative. I will continue by reading Recommendation number 10:

"Authority should be granted to the Dominion to enact legislation to regulate wages, hours of work, and conditions of labour, but, in the absence of Dominion legislation, nothing should limit the present authority of the provinces, nor with the enactment of Dominion legislation, the authority of the provinces to enact legislation to regulate wages at higher standards and hours of work on shorter basis, as well as supplementary measures concerning conditions of labour."

I think, perhaps, that measure is not dealt with in



the statement by counsel.

THE CHAIRMAN: I do not think it is.

HON. MR. PATTULLO: The position taken by our government, is that the Dominion should have the authority to set minimum standards across Canada. In this province, we have higher standards than those of any of the other provinces in the Dominion of Canada, and our people are very reluctant to surrender the right to maintain those standards.

THE CHAIRMAN: I can quite understand the basis of your proposal, the Dominion should have the general power to regulate wages and hours subject, however, to the right of any province to reduce the hours and increase the minimum wage.

HON. MR. PATTULLO: That is right, sir.

THE CHAIRMAN: Why do you say the Dominion should have the power to deal with this matter?

HON. MR. PATTULLO: I think it would be very helpful. In the first place, I think it would be very advantageous; we should endeavour to satisfy labour. If you have discontented labour from one end of the country to the other, you have not a sound and healthy position. This is one of the reasons why the province of British Columbia has taken up the question, apart from the fact that it improves the condition of the individual. If the Dominion did exercise this authority, it would improve conditions across Canada. Recommendation number 11 reads as follows:

" The Dominion and the provinces should cooperate more fully in matters of education. In Vocational Training, primary financial responsibility should



"rest with the Dominion. The Dominion might also develop a Bureau of Education to render generalized services in research, statistics, educational surveys, and so forth, to establish a more uniform system throughout Canada, to be applied or otherwise as each Province may determine."

THE CHAIRMAN: This question of education is very important; why do you say that the Dominion should have the primary financial responsibility so far as vocational training is concerned? Is that not, under modern conditions, an essential part of education in any community, whether it be industrial or agricultural?

HON. MR. PATTULLO: I think the Dominion has taken some steps in this regard.

THE CHAIRMAN: The Dominion has made grants-in-aid, but my point is, why do you wish the Dominion to assume the primary responsibility? If the Dominion assumed primary responsibility, the Dominion would have to control that branch of education. Would not the provinces be extremely reluctant, in fact some of them entirely hostile, to the Dominion government taking control in the field of education? You know how jealously some of the provinces regard this matter.

HON. MR. PATTULLO: The provinces should maintain control of education. On the other hand, the Dominion government, at the present time, has assumed a very considerable responsibility with regard to placements so far as the unemployed are concerned. The Dominion is taking a special interest, at the present time, in fitting the youth for going out into the various fields of endeavour and securing a position. I think that is very helpful.



Speaking from the standpoint of this province, we think-- of course, we have so many coming in here from other parts of the Dominion of Canada , every year a lot of the younger people come in here and just seem to follow our salubrious climate.

THE CHAIRMAN: That is one of the penalties which arises from your natural advantages.

HON. MR. PATTULLO: It is true that we must pay for what we get, but we do not always get what we pay for. I quote from Recommendation number 12:

"The Dominion and the provinces should cooperate more fully in the matter of health and welfare services. Primary responsibility for these services (apart from unemployment relief) should remain with the provinces, but the Dominion should assume a general obligation to assist the provinces in the performance of these functions. In particular, the Dominion should perform technical services such as research, statistics, publicity, and planning of general value, and to give grants-in-aid to support significant services."

THE CHAIRMAN: I just want to ask another question about Recommendation number 11, before we deal with number 12. You say, "The Dominion may also develop a Bureau of Education to render generalized services in research, statistics, educational surveys, and so forth, to establish a more uniform system throughout Canada;" to what is that "more uniform system," intended to apply?

HON. MR. PATTULLO: I think, probably, it would be a good idea if I had my colleague, Dr. Weir, illustrate that point more fully.





HON. G. M. WEIR: (Minister of Education): The service referred to there is purely of an advisory character. You may remember that about twenty years ago at a meeting of the National Council on the character of education, at Winnipeg, this matter was discussed. I refer particularly to the establishment of a bureau of education similar to the bureau in Washington, under the Department of Agriculture. The chief function of that bureau would be the collection of statistics, and it would serve as a depository for educational statistics. It might be desirable to introduce a more uniform system in school accounting.

THE CHAIRMAN: In school accounting, did you say?

HON. MR. WEIR: Yes, so we could make more reliable comparisons between provinces on matters of educational finance. It would be a purely advisory body, of a technical and scientific nature. It would extend the scope of the Bureau of Statistics and apply that type of work to the larger field of education. This service would be available to such provinces as cared to use it. This was made the chief objective you may remember your Lordship, at the annual conference on the character of education at the Winnipeg meeting. We realize there is difficulty in funding such a body; it may have to be funded by private enterprise, or private endowment. I am not certain whether Dominion funds would be available for such a purpose. We struck a snag back in 1919-20, but we have not given up hope.

THE CHAIRMAN: Faint, but pursuing, I suppose.

HON. MR. PATTULLO: I think I did read Recommendation number 12, your Lordship. This Recommendation is dealt with more fully by Mr. Farris in the Brief.



THE CHAIRMAN: It is dealt with more fully there, is it?

HON. MR. PATTULLO: A good deal of information is given in the Brief.

HON. MR. FARRIS: Might I suggest, Mr. Chairman, in some of these matters it might be advisable if Mr. Pattullo stated matters as briefly as possible, and then you could question him on these matters afterwards.

THE CHAIRMAN: We will leave this until the end.

HON. MR. PATTULLO: I quote Recommendation number 13:

"The Dominion should take the lead in obtaining uniform residence rules for every province in Canada, and should assume full responsibility for health and welfare services to those persons who do not have residence qualifications in any one province in accordance with rules established."

THE CHAIRMAN: That is not taken up in the Brief?

HON. MR. PATTULLO: No, I think not. So far as British Columbia is concerned, we have people coming in here by the thousands. They become destitute even a few weeks after they are here, but under the rules and regulations of this province, we cannot give them relief. This creates a bad impression on the public's mind. On one occasion we had sixty of these people thrown into jail at one time for "panhandling". We should have regular rules covering this matter. After a man is a year or some definite length of time in a province, he should be granted residence, otherwise he should be a charge upon the province from which he came.

THE CHAIRMAN: If a resident of one province who is not in a position to maintain himself, moves from that



province and goes to another, his unemployment relief should be charged against the province from which he came. You have, at least I know we have in Ontario, a provision in connection with relief where a resident moves from one municipality to another, the cost of that person's relief is charged back to the municipality from which he came.

HON. MR. PATTULLO: Yes, and that should maintain across Canada. It can only be done, I think, by establishing residence rules. As a matter of fact, locally, we have established rules with regard to municipalities by local legislation.

THE CHAIRMAN: Of course, the Dominion could not do that, establish residence rules which would govern a province, unless the Dominion had general jurisdiction over unemployment.

HON. MR. PATTULLO: The following section says that full responsibility should rest upon the Dominion government for unemployment relief. At the present time we are carrying out the administrative end of it. The Dominion is contributing towards it, but we do not know, even now, exactly what the Dominion will be doing next year.

THE CHAERMAN: That will be discussed by Senator Farris. I understand that comes up in your Brief. If it does not, we would like a very full discussion of it now.

HON. MR. PATTULLO: This subject is rather a matter of policy between the Dominion and ourselves. I hope you will not mind my having taken advantage of the occasion to accentuate the importance of this matter in the minds of the people.

THE CHAIRMAN: You think this is a good forum in which





to present it.

HON. MR. PATTULLO: I appreciate very much the appointment of this Royal Commission. We try to get a specific commission for British Columbia, and we were so promised. However, the larger question came up and there came an agitation for a general commission with a wide scope in which we concurred. I will continue the reading of our Recommendations by reading number 15:

"15. In connection with unemployment relief many public works of necessitous nature could be undertaken to meet public requirements. This would provide immediate work for many thousands.

16. The Dominion should share equally with the Province the cost of all Trans-Canada Highways, as well as primary feeders. Roads leading to National Parks should be the sole responsibility of the Dominion."

THE CHAIRMAN: Why do you say, "The Dominion should share equally with the province the cost of highways"? Highways within the province are the primary responsibility of the province and the municipalities.

HON. MR. PATTULLO: Yes, sir, but we have particularly in mind the Trans-Canada Highway, leading between here and Alberta, right across Canada. This work is being carried on on a fifty-fifty basis, and has been so carried on, I think, for the last three years--two years.

THE CHAIRMAN: How much is yet to be completed of that highway?

HON. MR. PATTULLO: Continuing at our present rate,



it will take a lifetime.

THE CHAIRMAN: By that time, Canada may be rich enough to pay for it.

HON. MR. PATTULLO: It may be, but if we get into a war, we will not.

THE CHAIRMAN: "Roads leading to national parks," why should a road leading to a park be a Dominion responsibility? Is that not a recreational advantage, an advantage to tourists?

HON. MR. PATTULLO: Beyond all doubt, there are advantages accruing to the province. An incident occurred in connection with Banff Park, comparatively recently, I think it occurred under Mr. Bennett's government. The government was very anxious for the province to contribute an amount of \$400,000. to build a certain roadway to Banff Park. Under conditions then existing, with settlers demanding roads and highways all over British Columbia, the legislature would not vote the money for a matter of that kind which was going to benefit a part.

THE CHAIRMAN: It would not benefit the part, but it would benefit the people who desired to see the park and encourage the tourist trade.

HON. MR. PATTULLO: The Dominion government administers the park and the advantages would accrue to the Dominion government. As a matter of fact, the roadway to which I have made reference benefits the province of Alberta as well as ourselves. We were to share fifty-fifty in that work. This province was supposed to vote a large sum for a matter of that kind when, in a province as far-flung as this province is, it takes every cent to go around.



THE CHAIRMAN: I suppose the real question was whether such an expenditure would result in increased tourist traffic? A number of your own citizens as well as others use the park and this might bring you a compensation equal to the expenditure, in some measure.

HON. MR. PATTULLO: I might say in connection with the Big Bend road the Dominion government is bearing the whole cost at the present time.

THE CHAIRMAN: That is a relief project, is it not?

HON. MR. PATTULLO: Yes, it is an unemployment relief project and has been going on for some time. I think the Dominion government might well undertake these works and finish them expeditiously. As it is now, we "putter along" and spend \$40 or \$50,000, then when it is finished, we have to start all over again. In the meantime, we have not had any of the advantages accruing from the tourist traffic. The Dominion government could take care of the unemployment problem and at the same time be doing something for the country.

THE CHAIRMAN: Where is this Big Bend road?

HON. MR. PATTULLO: The other side of Revelstoke.

THE CHAIRMAN: And to what points does it run?

HON. MR. PATTULLO: Golden and Revelstoke; it is a very expensive piece of work as it is all in the mountains.



HON. MR. PATTULLO: I will read No. 17:

17. "The policy of assistance by the Dominion in the matter of the construction of roads to encourage development of the mining industry has been very beneficial and should be continued as a permanent policy."

That, of course, is a matter of policy. Also, I might say, that they were contributing three dollars to our one to encourage the mining industry, and it was certainly a very great benefit to this province, and I think the Dominion of Canada as a whole.

"Work of the Geological Survey of Canada in British Columbia under provision of the B.N.A. Act has been of great value to our mining industry. This work should be continued more aggressively, with a minimum of not less than twelve full geological parties per annum in this Province".

Our mining department say that the work which has been done has been exceedingly advantageous, but it has been going along too slowly. At the present rate it will be a couple of hundred years before we get through. Under the terms of the B.N.A., the geological survey work was to be carried out by the Dominion Government. It is very necessary that we should be able to encourage prospectors. Right at the present time we are endeavoring to teach the youth of the country to go out prospecting, and so forth, and we should be able to advise them the manner in which they should proceed.

THE CHAIRMAN: What section of the Act is it which deals with that?

HON. MR. PATTULLO: I will give that to you after dinner. We are not finding fault with the work that has been done, but we are suggesting it should proceed more rapidly in order to carry out the terms as doubtless origina-





lly intended.

THE CHAIRMAN: May that be a special provision under which British Columbia came in, or is it a general provision?

HON. MR. PATTULLO: I think it is a special provision, sir.

COMMISSIONER DAFOE: I understand that Manitoba made a special arrangement with the Dominion that it would continue the geological survey when they took over the natural resources, and I think the same arrangement was made with Saskatchewan, which would suggest that there is no general provision in the B.N.A. Act, but it may well be in the Act of Union between British Columbia and Canada.

HON. MR. PATTULLO: I think that is the case, sir.  
I will read No. 18:

18. "While it is maintained that a moral obligation rests on the Canadian National Railways to absorb the Pacific Great Eastern Railway within its system, it is suggested that the two national railways should absorb this system by agreement."

That is dealt with very fully in the brief.

19. "The financial position of the Municipalities is of major importance and any conclusions reached respecting sources of provincial revenue must take into consideration provision for enabling the Municipalities adequate to function within the measure of their jurisdiction."

As suggested by your Lordship, that would be a matter of arrangement between the Dominion and the Province; the Province having to look after the municipalities.

THE CHAIRMAN: In this province, as I understand it, Mr. Pattullo, the number of municipalities is limited; that is, there are very large areas in which you have no municipal organization.



HON. MR.PATTULLO: Yes. That is one of the reasons of the high cost of government in British Columbia, - we have such a large portion unorganized, and administered by the province.

THE CHAIRMAN: Could you define in a general way the extent to which it is organized and unorganized, respectively?

HON. MR.PATTULLO: My colleague says 99% unorganized. I was going to say about 95%.

THE CHAIRMAN: 99% in area, how about in population?

HON. MR.PATTULLO: Of course, in population it is quite different. The bulk of population is around Vancouver and here.

THE CHAIRMAN: Take the rural areas, how far are the rural areas, taken from the standpoint of population, under municipal organization, and how far unorganized?

HON. MR.FARRIS :There will be some detailed information given you on that later, my Lord.

HON. MR.PATTULLO: Then, No.20:

20. "Oriental immigration into Canada should be prohibited upon grounds of ethnological differences of race, and as many Orientals as possible should be returned to the land from which they came". This is a question to which I have already made reference, and your Lordship won't mind my just making an observation, for this reason: The people here are very much wrought up; they look upon it as a menace. If the Eastern provinces had the same percentage of their population Orientals as has the Province of British Columbia, and if they had the Orientals asserting themselves in every line of endeavor, and controlling for instance, market gardening, - controlling the output, and so forth, with their lower standards of living, they would indeed be



very much aroused. The question is not fully understood there. As a matter of fact, I have already taken the matter up with Ottawa, and I am glad to see that Ottawa has appointed a board, or commission, to investigate the question. Allegations have been made that there has been "bootlegging" of Japs, - Japs coming in here who are not entitled to be here. That is going to be investigated, and I presume if that is found to be the case those Japs will be deported.

THE CHAIRMAN: You will recognize, Mr. Pattullo, that is beyond our jurisdiction. It is a matter of Dominion Government policy, involving relations with Japan and China, as well as domestic problems. We are not competent to make any finding on it.

HON. MR. PATTULLO: I hope your Lordship will not take umbrage at my making these observations. I believe there is some organization, who have strong feelings upon this subject, made certain representations to your honorable body; that it would come before the terms of the commission on the basis of national unity.

THE CHAIRMAN: It is purely a question of Dominion Government policy and international relations, and, of course, involves questions of great perplexity and difficulty.

HON. MR. PATTULLO: I will read No. 21:

21. While it is felt that the Dominion should assume full responsibility for the Doukhobor problem, our Province suggests co-operation upon a basis of joint responsibility.

There are some 12,000 Doukhobors in this province, mostly in the southern interior, and they create havoc. According to their extraordinary beliefs - let me say some of them are excellent citizens, and industrious, and so forth,





but a very large proportion of them do not want to send their children to school; they do not want to comply with laws, such as in regard to the registration of births, and so forth. And when the laws are invoked they start to burn down school houses and terrorize the community, and then in order to express or indicate their disapprobation of the enforcement of the laws of this province they indulge in "strip tease", both male and female. The situation has become intolerable.

THE CHAIRMAN: Of course, you will recognize that is a question beyond the scope of our inquiry.

HON. MR. PATTULLO: No. 22: "It is suggested that the inspection of fruits, vegetables, honey, and bulbs for both domestic and export sale should be entirely under Federal jurisdiction.

23. "Supervision of the disposal of elevator grain screenings, either whole or crushed, should be a Federal responsibility. The Provincial Department should report to the Federal Department on the suitability of the feed lots of farmers who may apply for screenings for livestock feeding."

THE CHAIRMAN: Mr. Pattullo, No. 22, "The inspection of fruits, vegetables", and so on, that is part of marketing, is it not? I mean, what is the object of that? Is it in order to insure that certain standard qualities shall be placed upon the market?

HON. MR. PATTULLO: Your Lordship, in order to give the most definite information I am going to ask my colleague, the Minister of Agriculture, to reply.

HON. MR. K. C. MacDONALD, Minister of Agriculture:  
It is a Dominion regulation. The Dominion regulations which are enforced by Dominion authority, but owing to court decisions



the question has arisen as to whether they can come into the province and have their officials operate in matters that are provincial, within the province. Now, what we are suggesting is in order to prevent overlapping, that they should take full responsibility to carry out their own regulations so far as grading and so on are concerned. What we do now, - or what we have attempted to do in our last session, was to pass legislation using the exact language of the Dominion Act for provincial purposes, and then turn around and appoint the provincial inspectors under our Act, in order that they can operate both ways.

THE CHAIRMAN: How can you deal effectively with the question of grading except as part of the marketing plan?

HON. MR. MacDONALD: It is outside marketing. Grading regulations are laid down by the Dominion Department of Agriculture, which makes it necessary to have these standard grades before they can be offered for sale.

THE CHAIRMAN: But as you say, by reason of recent decisions there may be some doubt as to the validity of it.

HON. MR. MacDONALD: The only reason for that suggestion is to prevent overlapping of jurisdiction. The superior power, once they legislate in these matters which we are dealing with ---

THE CHAIRMAN: Of course, if the Dominion had jurisdiction over marketing such as I recollect this province contended the Dominion should, why then, it undoubtedly could deal with grading. I know they have been doing a great many things, and it may conceivably be some of these things can be justified under agriculture, although it is a doubtful field. But that, at least, is what you have in mind, Dr. MacDonald?

HON. MR. MacDONALD: Yes.



THE CHAIRMAN: Thank you. What is meant by this: "Supervision of the disposal of elevator grain screenings"? At the present time the Dominion has jurisdiction over elevators by virtue of her declaration as to the general advantage of Canada. Does the Dominion legislation not cover the disposal of screenings from the elevators?

HON. MR. MacDONALD: Yes, it does so far as the percentage of noxious weed seeds is concerned, that may be contained in the screening, but we, on the other hand, are compelled to say how these things should be handled in the Province. The Dominion Government have their officials inspect and prosecute under their Act, and we have to say where these screenings can be put. Why we are suggesting this is in order to prevent overlapping between two departments. When they have 95% of the jurisdiction they might as well take the other 5% and deal with it.

THE CHAIRMAN: Are you willing they should be given the jurisdiction to cover the other 5%?

HON. MR. MacDONALD: Yes.

HON. MR. PATTULLO: Then, No. 24:

24. "In order effectively to control the marketing of commodities produced within their respective boundaries, the provinces should be given complete control of the packing, storing and transporting within their boundaries of commodities intended for Interprovincial trade."

THE CHAIRMAN: Mr. Pattullo, is that not just the reverse of the position you have taken in the past before the Privy Council and the Supreme Court on the Marketing Act? I would like you to give us your reasons for that.

HON. MR. PATTULLO: If you do not mind, your Lordship, I am not admitting that I cannot explain it, - because this matter has been before us so often, being one of the most



important and difficult matters with which we have had to deal, but my colleague, Dr. MacDonald, would feel very jealous, and I am going to ask him to reply to your Lordship.

HON. MR. MacDonald: Your Lordship, the situation today by virtue of the decisions of the courts, as I understand it, is that the province can only utilize direct taxation. When we attempt to levy for the cost of merchandising, - commodities for marketing, it has been found that it is indirect taxation, and we have had to resort to a form of license. It is presumed to be within the jurisdiction of the province to collect revenue by way of licenses, which is a most cumbersome thing. For instance, in regard to milk, we were attempting to collect a merchandising charge under the guise of a license, and you have to spread it over the number of cattle, and so on, and then if you do so on the production of the past you are again encroaching upon indirect taxation. What we would suggest is, that if the province is to be permitted - as I believe they should be permitted, - to control the merchandising and marketing of its products, which is produced within the confines of the province, then they should be put in the position where they could do it most efficiently, and where they can utilize indirect taxation for the purpose of merchandising cost. It does seem to me to be logical, if we are to establish merchandising boards, - we cannot do it for nothing, - there must be a charge, and that charge should be in the most reasonable and available way possible.

THE CHAIRMAN: The effect of your proposition is, to enable you to deal with interprovincial trade?

HON. MR. MacDonald: Your Lordship, from the layman's point of view, I take this attitude; that surely these commodities, while they are products of the province, are products over which we are supposed to have control, and to have the right to say how they should be merchandised,





and so on.

COMMISSIONER MacKAY: Mr. MacDonald, are you discussing trade within the province or trade between provinces?

HON. MR. MacDONALD: I am coming to that. In the process of controlling these commodities within the province,--

THE CHAIRMAN: It is commodities intended for inter-provincial trade?

HON. MR. MacDONALD: The intention is to control the commodities that we produce here, in order that we may get the cost of production back to the man on the land. Without it, there is no possible chance of his existing.

If you say because of the impediment to interprovincial trade, that someone may come from another province into the province of British Columbia and enter into some agreement with somebody here, --- a deal is made with somebody in some other province, and thereby you cannot control a commodity, your market is simply broken overnight.

THE CHAIRMAN: Is not the solution the one for which British Columbia contended before the Supreme Court and the Privy Council? Namely, that the Dominion should have power to enact marketing legislation which would enable the scheme to be set up constitutionally within the province, and deal with domestic and interprovincial, and foreign trade if necessary.

HON. MR. MacDONALD: I think we are quite prepared to acknowledge,-- if the Dominion Government is prepared to take that responsibility, - well and good. But surely we cannot be sacrificed because several provinces in Canada do not see things eye to eye.

THE CHAIRMAN: Your point then, as I understand it,-- and I can quite appreciate it,-- if the Dominion does not acquire the jurisdiction and will not enact suitable marketing legislation, British Columbia should be put in a position



where it can enact adequate marketing legislation.

HON. MR. MACDONALD: That is our position.

HON. MR. PATTULLO: No. 25:

25. "The authority of the Dominion with regard to bankruptcy laws should be restated. Under a decision of the Privy Council with regard to the "Farmers' Creditors Arrangement Act," the Dominion has set up a body which can not only review contracts as between individuals, but can review contracts of the Crown in right of the Province. Provincial laws exist in which provision is made for the basis upon which Crown resources may be alienated. A body set up in this Province by the Dominion is exercising authority to alter the terms of contracts made between the Crown in right of the Province and private individuals, and to impose new terms. It is an anomalous situation that a contract between the Crown in right of the Province and a farmer, entered into under Provincial legislation, can be altered by a body appointed by the Dominion Government".

I do not see how the Government of the day could ever conceive such legislation under the terms of the bankruptcy laws. I do not see how the Parliament of Canada could ever be induced to pass it; and I do not see - I say it with respect, - how the learned Lordships of the Privy Council could make such an extraordinary decision such as they did make in respect to this measure.

THE CHAIRMAN: Well, you see, whether we can conceive it or not, all those things have happened.

HON. MR. PATTULLO: Yes, they have.

THE CHAIRMAN: All along the line in that case.

HON. MR. PATTULLO: Certainly, if this is good law - and apparently it is the law, - if they can make it applicable



to farmers then they can make it applicable to everybody else. Our legislature passes laws and lays down the terms on which we can alienate, under this Act, the Crown lands, and so forth. Our Government has exercised through the legislature, - brought about the power and exercised that power from time to time, to reduce the obligations of farmers to the Government. Why is the Crown, in the right of the province not just as capable of meeting this situation?

Our Minister of Finance has to base the estimates on the revenue that may come in. This body comes out from Ottawa and they say "Oh no, you do not have to pay that, you do not have to pay any interest; we will cut down the principal 50% and we will extend the balance of payments over twenty-five years at so much a year, without interest."

THE CHAIRMAN: The board here is a British Columbia Board, is it not? The members are from British Columbia. Of course the complaint you are making, Mr. Pattullo, is the same complaint as that of scores of mortgagees and owners of lands who sold out under agreements of sale throughout Canada. On the other hand there are those who think it is a most beneficial measure, to protect people who have either purchased or given a mortgage, from being deprived of their equities. It is not for us to express any opinion on the wisdom or lack of wisdom of the law.

HON. MR. PATTULLO: The representation we are making now is that the British North America Act should be clarified to put it beyond any peradventure. Certainly a measure between individuals is different from a measure between the Crown and individuals.

THE CHAIRMAN: Of course, a much simpler method of dealing with the proposition, if your submission is one that should be given effect to, would be simply to amend the Farmers' Creditors Arrangement Act so that it would not apply to Crown debts.





HON. MR.PATTULLO: Of course, we made representations of that character, but they were not acceded to. I think the principle involved is an important one, because if they can pass acts in relation to farmers they can pass acts in regard to any one. Where we do not know the amount of money we are going to get in at all, the Minister of Finance won't be able to balance the budget.

THE CHAIRMAN: Can you suggest how the questions regarding bankruptcy and solvency should be clarified?

HON. MR.PATTULLO: I would think so. In this next clause I have here I say:

26. "Jurisdictions now in doubt should be placed beyond question so far as language may be able to attain this end." I think it should be clarified and put beyond the question of doubt.

THE CHAIRMAN: Mr.Pattullo, have you any other clauses in mind when you refer to this paragraph 26? Are there any other sections of the B.N.A. Act other than this bankruptcy and insolvency which you think need clarification?

HON. MR.PATTULLO: I would not say offhand, but I think in matters of taxation; for example, such as the gasoline tax, referred to formerly, I believe some briefs will be submitted also later by a few departmental officials, especially in regard to insurance laws, and so forth. I have been here approximately twenty years, and from time to time these questions are arising, as to misunderstanding and misinterpretation.

THE CHAIRMAN: I know they are, and I wondered if we might have the benefit of the particular clauses you had in mind.

HON. MR.PATTULLO: Before the conclusion of the sittings of the Commission I will have that looked into in detail. I might also say : "While there are other matters



of much importance, they are questions of policy as between the Dominion Government and this Province, rather than subject-matter for consideration by your Royal Commission."

That may not be germane to the matter, but I think perhaps it is a matter of interest to the Commission. You might rather wonder what those matters would be. Well, there would be such matters, for example, as extending the boundaries of British Columbia to include the Yukon, also the McKenzie Basin; also the construction of a highway through British Columbia and the Yukon to connect up with Alaska. Those are matters of major importance, and I frankly say to your honorable body this morning that this document will go across Canada and before the people of British Columbia as well. I always think it is well to take the public into your confidence; I have always found it helpful to the Government, and, I think it will be helpful to your Commission. In closing may I say this:

"I feel assured that if the Provinces and the Dominion approach the outstanding issues in a spirit of mutual good will and a determination effectively to meet the problems confronting us, results will be of lasting benefit to all the Provinces of the Dominion and to Canada as a whole."

I want to accentuate, if I may, the necessity of the Dominion and the Provinces not getting into squabbles, not doing anything in the interval that is going to create misunderstandings from which there will be difficulty in recovering. It seems to me that they should approach it in that spirit, and I am sure your honorable body, when you come to render your advice, will exercise that spirit.

THE CHAIRMAN: Thank you, Mr. Pattullo. Before we come to the next point may I express, on behalf of the members of the Commission, our appreciation for your very



cordial welcome, Mr. Prime Minister. It is very pleasant in this month of March, to come to a land of flowers and sunshine, and we are able to appreciate some of the natural advantages of the British Columbia at the present time.

You have spoken of the special position of British Columbia. I assume that that question which will be fully developed in Senator Farris' brief, relates to the present subsidy of \$750,000 which has been voted as an interim subsidy for three or four years, and the problem there involved is whether that should be made a permanent subsidy or whether it should be increased or, I suppose, diminished.

HON. MR. PATTULLO: Your Lordship, I had no thought in mind that the question would arise as to whether it would be made permanent, because we never had any idea it would ever be reduced, but it was upon the terms and conditions under which British Columbia entered from the very commencement.

THE CHAIRMAN: I suppose it frequently happens, does it not, Mr. Pattullo, in the case of all provinces, that when anything is given as a temporary matter it generally ends in being a permanent matter. Thank you.

Then, Senator Farris.

HON. MR. FARRIS: Mr. Chairman, and gentlemen of the Commission, you have a copy of the brief on which I will base my remarks. As a matter of fact, Mr. Chairman, I think I will almost entirely read what is here, with such amplification as I may find necessary or your questions may suggest.

"The major problem for consideration by the Commission is the financial relationship between the Dominion and the Provinces. This subject may be considered in three divisions: --

One: The subject of a general revision Dominion-wide in its application.



Two: The rights of individual provinces for particular consideration;

Three: Emergency or temporary assistance necessary for any province from conditions imposing an obligation on Canada as a whole.

In presenting the case for British Columbia, Divisions One and Two only need be considered.

First Division  
General Revision

British Columbia joins with other provinces in asserting the need for a general revision or re-arrangement of the financial relations between the Dominion and the Provinces.

It is submitted that the scheme of Confederation providing for the financial arrangement between the Dominion and the provinces has broken down and its continuance without modification is not practically possible. The reasons for this condition are: -

One: The duties and functions of government of the provinces have increased far beyond what was in the mind of any one at Confederation. The increase of these duties and functions has placed financial burdens on the provinces out of proportion to the grants provided and the taxing powers conferred on the provinces by the federation scheme.

This fact can be established both by a reference to the speeches made by the public men of Canada at the time of Confederation, and by an analysis of financial statements of the provincial governments from Confederation to date, showing the increasing financial burdens on the provinces and the ever-increasing new services which they have been called upon to perform."





Now, I have given a reference to part four of the general brief that has been filed, and I may say this, Mr. Chairman: That of these allegations in part One we get emphasis from the development of part two, and to save repetition I will not go into details, but take this question of services, that will be referred to in detail when we consider the position of British Columbia. In fact I would take it it is almost superfluous at this time to stress the fact that, generally speaking, the field of services rendered by the Province has grown away beyond what was conceived or thought of at the time of Confederation, and certainly when we examine part four of our brief that will become more evident.

Two: "The provinces have not only assumed new duties and functions, but they are loaded with obligations in connection with unemployment, which it is submitted has now attained proportions of nationwide gravity and properly should fall on the Dominion as a whole."

I argue that under the next division of our case. It really falls under both divisions, but it is only needed to be argued once. British Columbia has a special claim in this matter which will be submitted later.

THE CHAIRMAN: Perhaps we had better leave it over until you come to discuss it.

HON. MR. FARRIS: Yes, I would like to discuss that later.

Three: "There has been no provision either in increased grants or in enlarged powers of taxation adequate to meet these new burdens. Increased grants have been made, but not on sound principles, or in sufficient amounts. The taxing powers of the provinces not only have not been broadened, but in



effect they have been seriously curtailed."

What I refer to there, and which will develop later, is the question of the field of taxation.

"Both these subjects, that of grants and of taxing powers, require separate consideration. This will be given in more detail in Division Two as applicable to British Columbia, but are here outlined in general.

#### Federal Grants to the Provinces

At the time of Confederation only four provinces were involved: Ontario, Quebec, Nova Scotia and New Brunswick. The problem at that time was less complex than now, yet it is reported that the pre-confederation discussions of this question threatened to wreck the conference.

The Provinces were surrendering the duties of excise and customs, which were their main sources of income. The Dominion was assuming the debts of the provinces and all functions of government believed to be national in their scope and character. The scheme adopted was to adjust the debt assumptions and to provide enough money for the provinces to enable them to carry on their local governments at the then estimate of what the costs would be.

This scheme had three provisions: -

- (1) The device of debt allowances;
- (2) A yearly grant of 80 cents per capita to each province on the basis of the then population;
- (3) Exceptional or special grants in certain cases.

These provisions were arrived at for the purpose of meeting the then financial need of the provinces and the political exigencies of the moment. They had within them no capacity for self-adjustment and no possibilities for meeting new conditions. They met



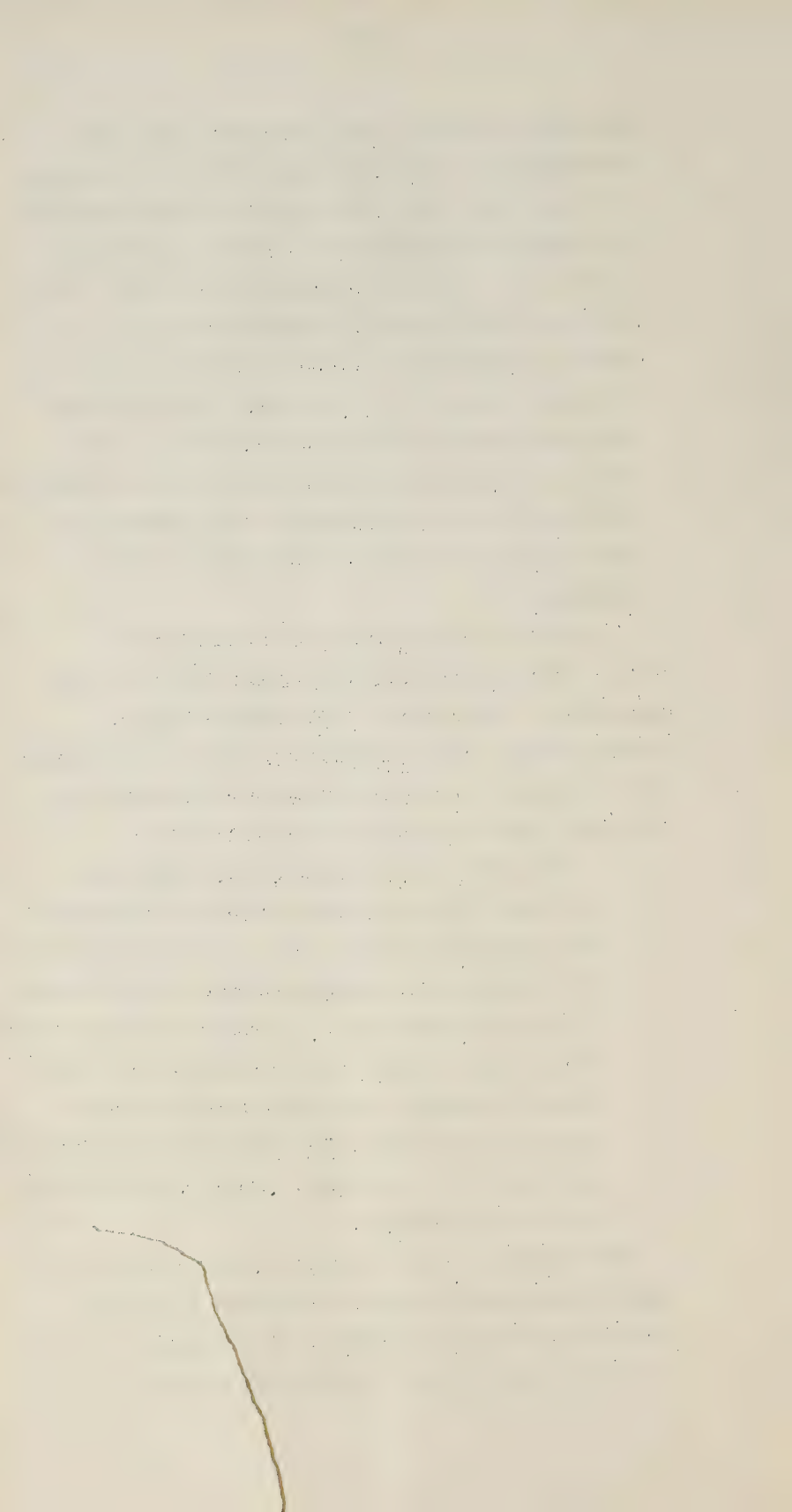
the need of the hour; they helped to bring about Confederation - the future must look out for itself.

In less than three years legislation was passed by the Dominion granting to Nova Scotia an additional subsidy for ten years, beginning as of July 1, 1867. This has been described by Maxwell in his book on Federal Subsidies as the 'first assault upon the financial terms of the B.N.A. Act'. It would have been more correct if Professor Maxwell had said: 'So soon was it indicated that the financial scheme of confederation was not accurate in its computations and had within its provision no powers of self-adjustment'."

I may at a later point of this submission quote - which probably has been quoted before to this Commission, - 'the remarks of Sir Charles Tupper, contemporaneous with Confederation, as to his conception of how necessary it was that further readjustments had to be made. That is found later in this brief.

"From 1869 to the present, many changes have been made in the original financial arrangement. New provinces have come in, and old formulae have been applied with adjustments made in an endeavor to meet new conditions. A study of Canadian History for the past seventy years shows that the adjustments and changes have been based on no sound governing principles. They have lacked consistency and equality of treatment. In many instances they have been inadequate."

THE CHAIRMAN: Senator Farris, do you later in this brief outline what you would call sound governing principles for the readjustment of relations? If not, I would be glad if you would develop that now.





HON. MR.FARRIS: I would not attempt to develop anything at this stage that I have not previously prepared, on a matter of that kind.

THE CHAIRMAN: You say the principles applied in the past have not been sound. What principle do you say should be applied for the future? That is the problem we have to consider.

HON. MR.FARRIS: With respect, sir, I would decline to embark on that discussion at this stage. The first step to be taken here, is to make clear what is wrong; that is, the analysis, and I am not at all sure how far the Government of this Province, from the directions they have given either through me or themselves, should formulate.

THE CHAIRMAN: We have had in other provinces a pronouncement of what these provinces conceive to be the proper principle. I do not ask you to deal with it now; we would like, before we leave, to have the benefit of the view of this province as to what you think would be a sound principle.

HON. MR.FARRIS: I will leave the reply to that question until we have analyzed and criticized the status quo.

THE CHAIRMAN: Quite.

HON. MR.FARRIS: Now, I might say these are only general observations in relation to the province. My next comment is on Provincial taxing powers, speaking generally:

"The Provinces have been limited in raising revenue by the constitution to direct taxes, licence fees, and sale or other disposal of their assets. Licence fees, generally speaking, are a form of direct taxation; the sale of assets is not properly revenue. The field is, therefore, substantially limited to direct taxation."



THE CHAIRMAN: If the licence fee is of such magnitude that it can be said it is not really licencing for the purpose of revenue but it is intended for some other purpose, then it would be held ultra vires. But so long as it is kept within the limits of a reasonable licence fee there is no difficulty, is there?

HON. MR.FARRIS: I do not think so, unless there has been some suggestion in one or two cases as to how far a licence fee, that is obviously a direct tax,- I do not think we need concern ourselves with it because generally speaking, I think under the Mills definition that a licence fee would be a direct tax, and that is all I am discussing now; that generally speaking, for practical purposes, not for legal distinction, - our field of taxation is direct taxation and nothing else.

THE CHAIRMAN: Senator Farris, when you say a licence fee is direct taxation, and is limited; take the liquor licence fees, - brewers' fees, - they have been in some of the provinces before Government control was introduced, raised to a figure where they clearly would be passed on, but it was a licence fee.

HON. MR.FARRIS: I suppose all forms of taxation are passed on and are ultimately paid by the consumer, and in that sense all taxes are direct. But I have always conceived this idea: That the question is whether it is passed on with its identity preserved. For instance, take a custom duty, and you pay so much duty on a yard of cloth. Well, that duty goes on as so much on a yard of cloth, but when you get into the field of where you finely draw the line between direct and indirect tax, it becomes very shadowy, and there are economists who say all taxes are direct.

THE CHAIRMAN: You have two distinct powers in the province. You have direct taxation within the province in order to the raising of a revenue for provincial purposes,



as stated in section 92-2, and then you have 92-9, "Shop, Saloon, Tavern, Auctioneer, and other Licenses in order to the raising of a Revenue for Provincial Local or Municipal Purposes." That certainly was intended to be something other than direct taxation, covered by subsection 2. If it was intended to be the same as 2 it would not have been there.

HON. MR.FARRIS: That does not always follow. In my judgment, I would say that all those taxes are in effect direct taxes under Mills' definition. Of course, there has been a lot of discussion on what is direct and indirect.

THE CHAIRMAN: Quite so, but there might be the case of a licence fee which a court might feel was indirect taxation, and yet would be justified as a licence fee, being purely a fee charged for a licence.

HON. MR.FARRIS: If that were a direct issue before this Commission and I had to take the other side of the brief, I think I should make this argument, sir--- I do not think it is particularly germane to our discussion, but I think I could make this argument; that the taxes indicated there are direct taxes, and while it does not say what taxes are to be indicated, it indicates the type of licence, the licences that are indicated there are direct taxes, and I think the argument could be presented that it is only licences within the genus there indicated, namely, direct taxes, that were involved, but I do not want to attempt that argument because I did not come prepared to make it, nor do I think it is essential. I do think that, generally speaking, licence fees are direct taxes; generally speaking, the field of taxation in the province is one of direct taxation, and that is as far as my proposition is to go.

"The powers conferred on the Dominion are to raise money by any mode or system of taxation. It is



submitted that it was understood at Confederation that the field of direct taxation would be left to the provinces. Certainly it was not expected that the field would ever be invaded to the extent of draining this source of provincial revenue.

For many years this understanding was observed. It was not until the Great War that a change was made. Even then it was made only as an emergency War measure. Today the invasion of this field by the Dominion is not only permanent in its character, but it has attained such dimensions as to seriously affect in some provinces their only method of increasing their revenue."

I want to pause there, because some of the members of the press when they first saw that understood that to mean in its presentation British Columbia was conceding that the income tax was now a permanent, and apparently properly, permanent institution of the Dominion, and that is far from my intention in making that statement. You will notice the word "permanent" is accompanied by the word "invasion", and a permanent invasion never becomes by time justified.

THE CHAIRMAN: I am afraid times will have to considerably improve and other sources of revenue develop for the Dominion before we can hope to see the Dominion abandon that field, Mr. Farris.

HON. MR. FARRIS: I am not presenting the brief from that aspect, and when I say that I do not wish to appear provincial or sectional. A province must present the situation as it is, that is all it can do. I notice there are comments in the papers, even British Columbia papers, I do not know what they expect the province to do, if it is not to present its difficulties and its problems and its complaints in the light of the past. That does not mean they are shutting their eyes to the Federal situation.





I do not know whether the Dominion intends to present a brief before this Commission, but it seems to me, with great respect to this Commission and the Dominion, that it should.

THE CHAIRMAN: We would like them to, but I do not know either. I cannot answer your question.

HON. MR.FARRIS: It leaves the province, if they must not only come in and present their own brief, but also plead in the alternative from the standpoint of the Dominion, - it seems to me it leaves the province in quite an impossible position, and they should not be asked to do that.

( Page 4883 follows )



THE CHAIRMAN: Yes, but of course, Senator, when you are considering the provincial point of view, properly presenting the case of the province, and you submit certain propositions, which, on the face of them, present difficulties, we like the benefit of your view as to how these difficulties may be overcome. We like to get all the assistance that is possible.

HON. MR. EAPRIS: In any event at this state I am presenting the grievance and of it, and I do not use the word grievance in any whining or complaining sense. I am merely suggesting that as a matter of history and of practical facts there are certain things here that have not worked out fairly for the Province of British Columbia and they must be stated. That comes up more particularly at what we are now dealing with, namely, the second division: British Columbia's Special Claims.

"It is submitted that British Columbia has a special case for the consideration of the Commission which stands outside the general claims of other provinces and which entitles her individually to have a readjustment with the Dominion."

Now, in making that statement the province would not want to be misunderstood as saying that other provinces may not have similar cases either of the same degree or less. That is not a matter upon which we are competent to advance any statement, so that no invidious comparisons are made. We are simply stating it from British Columbia's standpoint:

"It is submitted that this Province has not received equitable treatment in the Canadian partnership, and that the result has been unfair to her as a Province, detrimental to the welfare of her citizens, and harmful to Canada as a whole."

At that state I would like to read again Mr. Pattullo's



recommendation No. 2:

"The special position of British Columbia in the Confederation of Canada should receive immediate consideration and the terms upon which British Columbia may be in a position of equality with the other Provinces of Canada when considering new adjustments and relationships in Dominion and Provincial authority."

THE CHAIRMAN: I thought the effect of that, as Mr. Pattullo read it and as you re-read it, was that British Columbia does contend that she has a special claim different from that of any other province, and that that claim should be adjusted before a general re-adjustment of the whole situation as between the Dominion and the provinces is taken into account.

HON. MR. FARRIS: Exactly, that is what it says and that is why I read it again.

THE CHAIRMAN: I thought you were saying just now you did not suggest that other provinces might not have similar difficulties?

HON. MR. FARRIS: That may be, there might be some other province, for instance you take this question, and I am jumping a long way ahead, the question of the incidence of the tariff in regard to home markets when considered from the British Columbia standpoint, it may well be that Nova Scotia has a similar claim. But as I cannot eliminate or include completely other provinces in a comparison of this kind, all I can do is to say generally speaking, taking British Columbia in comparison with other provinces, we have a special case. That is all I can say. Now I don't wish to say that Nova Scotia, as to part of the same case, may not have a special case.

THE CHAIRMAN: What I am looking at is the question





of reaching some finality. Mr. Pattullo says in this statement No. 2 in order that British Columbia may be placed in a position of equality with the other provinces something must be done. I can understand that contention quite clearly and therefore you institute a comparison with other provinces and you say having regard to this, British Columbia is entitled to certain consideration, but if then another province comes along and says "Now, by reason of this grant to British Columbia we are placed in a position of inequality," then we must have another arrangement or if by reason of special tariff incidence we must have another arrangement -

HON. MR. FARRIS: I would not expect, Mr. Chairman, that you would grant to British Columbia any treatment that would bring us above the level of the other provinces, and until that was done the other provinces could not make that complaint. I take now the general level, I say we are below it, away below it. Some other provinces may also be below it but I am not concerned with that. I do not wish to be arrogant and therefore I wish to make a qualification that there may or may not be some consideration for another province.

I am reading now from my own brief again:

"The position of this Province is not based on any plea of poverty. She does not plead lack of resources, the unkindness of nature or lack of income in her citizens. On the contrary, it is asserted British Columbia, in natural wealth, in climatic conditions, and scenic attractions, is not excelled in any part of Canada. It is believed, if given a fair opportunity, not only can this Province adequately provide for and administer her own affairs, but that her growth and development will contribute to the general prosperity of the nation. In making this statement



"the position must not be misunderstood. It will appear with greater clarity hereafter as details are presented.

It is necessary, however, to leave the door open. Comparison may be made with a large private business enterprise which cannot succeed until it is fully established as a going concern. Its local markets are restricted and, taken alone, are unprofitable. Its overhead costs are heavy. It can only succeed if the financial resources of the company are available for enterprise and it has free scope to complete its structure and market its commodity in competitive markets of the world. To carry the analogy further, if such enterprise were a subsidiary of some parent organization which drained its resources, restricted its field of operations, and placed undue burdens upon it, failure would be inevitable. This comparison is not intended to be an exact one, but is used to illustrate in a general way some features hereafter to be presented.

It is submitted for British Columbia that the scheme of Confederation and method of its operation have imposed undue burdens on the Province, which is retarding her growth and development, is draining her resources, and is preventing her from assuming her proper place among Canadian provinces. This submission is not made in a narrow spirit or in an attitude hostile to Canadian institutions, but in the confident hope that a new Confederation will emerge as a result of the findings of this Commission.

#### Reasons for Special Case for British Columbia:

It is submitted that the financial set-up now and heretofore existing between the Dominion and British



"Columbia has not made adequate provision for the cost of government in the Province, has drained her resources, impeded her industries, and is unfair for the following reasons:-

One: The grant allowances are inadequate for and entirely out of proportion to the increasing cost of provincial government;"

Now, for reference you might put in, I will give the marginal reference of where the matters come up again. If you will put this in the column after that "See page 7" that is discussed in detail at page 7. I will run down and give them all now and it will save doing it again. Two, page 10. Three, page 10. Four, page 21; five page 29. And six, page 29. So that that really makes an index to this argument.

"Two: The allowances have been made without due consideration of the physical features of the Province, which make the cost of government exceptionally high;

Three: In comparison with other provinces of Canada, equitable treatment has not been received by British Columbia in the matter of Federal subsidies and allowances;

Four: The contribution which British Columbia is making to the Confederation is excessive;

In comparison either with grants which she receives from the Dominion; or with contributions of other provinces.

The contributions referred to in particular are:--

A. The federal income tax;

B. The duties of customs and excise, excise taxes and sales tax;

C. The incidence of the tariff in relation to commodities purchased in Canada outside of the



"of the Province at prices enhanced because of the tariff.

Five: Not only is the federal income tax excessive and an invasion of the field of provincial sources of revenue, but is applied on a principle contrary to the spirit of Confederation. The British North America Act has allotted to the provinces ownership of the lands, forests, minerals, and other natural resources. The Dominion is taking as income, revenues derived from the depletion of these assets. From the standpoint of the individual the returns from the disposal of the forests and mines of the provinces may be deemed to be income, but from the standpoint of the province it is a disposal of her capital assets.

Six: It is impossible for the province and the municipalities to meet the necessary costs of the administration of government and debt obligations under existing conditions, except by increasing the burden of taxation to an intolerable extent.

Before supporting these six reasons in detail, it is proposed, first, to refer to the summary and analysis of the financial arrangements made with the Dominion from Confederation to date; and, second, to the outline of the representations and protests heretofore made by this Province to the Dominion.

First: The summary and analysis of financial arrangements is set out in "British Columbia in the Canadian Confederation," Part II."

Now, I don't know, I have that marked for brief reading and I think probably I will have to read them. I have taken at page 4 and I am reading the third paragraph there, beginning at the second paragraph:





"The Colony of Vancouver Island was founded in 1849, and the Colony of British Columbia in 1858. These two Colonies were united into the Province of British Columbia in 1866, and the question of the entry of British Columbia into the Canadian Confederation soon arose. Between British Columbia and Canada there was a wide stretch of prairie country then under the control of the Hudson's Bay Company and the question of union had to be postponed until the control of this territory was vested in the Dominion Government.

In 1870 a delegation from British Columbia visited Ottawa in order to discuss the question of entry into Confederation. Here again the financial compromise which had been necessary to consummate Confederation in the East was applied. Population, which even in the original Confederation had been merely a makeshift measure of need, was again applied. The British Columbia delegation requested an annual subsidy on the basis of a population of 120,000. The population of British Columbia at that time, including Whites, Indians, and Chinese was approximately 35,000. The delegation apparently saw through the population device and treated it as such, basing their requests for subsidy on something which was real, namely, the previous revenues of the Province from customs and excise. A request was also made that the Dominion should guarantee interest at 5 per cent. on a loan not to exceed £100,000 for the purpose of constructing a graving dock at Esquimalt, and also that a wagon-road should be constructed within three years connecting British Columbia with Fort Garry.

Arrangements were finally made to grant a subsidy on the basis of a population of 60,000 amounting to



"\$48,000 per year and debt allowances at the rate of \$27.77 per capita, amounting to \$1,662,000."

THE CHAIRMAN: Just before passing from that former paragraph, did not the actual resolution that was passed by the legislature here in British Columbia ask also for the railway? The wagon-road was a temporary expedient, the railway was to be commenced at an early date.

HON. MR. FARRIS: Yes. Now, Mr. Chairman, if that question is suggestive that the railway was a payment to British Columbia for joining Confederation, that has been suggested, it opens up a wide question. I, from my reading of it, thought that no longer was seriously being pressed.

THE CHAIRMAN: No, it is not suggested in this case at all. I only raise the question as to an accurate statement of the conditions of the request made by British Columbia at the time. My recollection was that the resolution did ask for a railway. I may be quite wrong in that, and I was only raising that point so we would have an accurate statement.

HON. MR. FARRIS: My recollection of reading, I am thinking of my reading of Maxwell's book, that the delegation, until they got there, had not expected to raise it. Is that not right? Yes, Professor Carrothers corroborates that.

THE CHAIRMAN: Of course, the actual resolution would show. I have seen what purports to be a copy of the resolution and it did include a railway but I cannot speak with certainty. It would be interesting, though, to have it checked up.

HON. MR. FARRIS: Yes, I am making a note of that.

THE CHAIRMAN: You have the records here which would show the exact facts about it.

HON. MR. FARRIS: Yes, Doctor Carrothers is chacking up on that. "Arrangements were finally made --" Well,



I read that one, didn't I?

"A further grant for the support of the government of \$35,000 annually was also made, together with an annual subsidy of \$100,000, provided the Province turned over to the Dominion a belt of land running 20 miles on each side of the proposed Pacific railway. This arrangement was merely a device to give an excuse for the grant. The real basis again was need. In this way the request of the Provincial Government for its financial requirements was met. Not only was the financial basis of Confederation a compromise, but it was quite impossible that the Fathers of Confederation should, at that time, foresee the change which has taken place in public opinion with regard to the functions of government, or the increase in demands made by the public for governmental services of various kinds. Actual payments made by the Dominion Government to the Government of the Province of British Columbia, 1871-1937, are shown in Table 1, amounting over this period to \$32,327,352.20."

Then I pass along, page 5, the second paragraph. I may say that in passing over some of the observations in here it is not that they are not of importance but they are covered in the argument which I come to later and I don't want to read it twice. I am confining it as far as I can, to the reference in the text here to the historical narrative.

"Under the Terms of Union the Province of British Columbia agreed to relinquish the administration of customs and excise duties to the Dominion, for which the Federal Government assumed in return, the debts and liabilities of the Province at that time, and agreed, in addition, to pay certain sums of money annually for the support of the local government.



"As British Columbia had not incurred debts equal to those of the other Provinces then constituting the Dominion, it was provided that interest would be paid that Province at the rate of 5 per cent., payable half-yearly,

"on the difference between the actual amount of British Columbia's indebtedness at the date of the Union, and the indebtedness per head of the population of Nova Scotia and New Brunswick (\$27.77) with the population of British Columbia being taken at 60,000."

Then on Page 7:

"Of further interest is the provision (section 12) that the Dominion would guarantee the interest at 5 per cent. on a loan not exceeding £100,000 for the construction of a graving dock at Esquimalt, for a period of ten years following the completion of the project.

The first adjustment was made in the subsidies to British Columbia in 1873 when the Dominion Government made an upward revision in the debt allowances to all the Provinces. At the time that Ontario and Quebec entered Confederation they had an incurred debt of \$72,900,000 of which the Dominion assumed \$62,500,000. On the balance of \$10,400,000 the two Provinces were to pay interest to the Dominion Government at the rate of 5 per cent. This arrangement was unsatisfactory to Quebec, and the Dominion adjusted the problem by assuming the excess debt of these two Provinces in 1873."

and I read on the next page, Mr. Chairman:

"The joint debt allowance of Ontario and Quebec was scaled up by \$10,506,100 and a proportionate





"increase was made in the debt allowance of the other Provinces. As a result of this adjustment British Columbia received an addition of \$280,084 to her "excess debt" account, increasing the total of that fund to \$945,878.97 for the calendar year, 1873.

During this same year the Dominion Government paid out of British Columbia's "excess debt" account \$112,244.48 for provincial obligations incurred before 1871, and received a refund to this account of \$9,483.24. With these additions to and payments out of the Province's "excess debt" account during 1873, the balance in the account at the end of 1873 was \$843,117.83.

The interest paid to the Province of British Columbia on the "excess debt" allowance increased from \$31,000 in 1872 to \$46,977.69 in 1874, as shown in Table 1.

Following representations by the Province of British Columbia, the Dominion Government in 1874 changed the method of giving financial assistance to the construction of the graving dock at Esquimalt. Instead of a guarantee of interest at 5 per cent. on a sum up to \$100,000 for period of ten years following the completion of the dock, the Dominion agreed to share in the cost of the construction, "upon certificates of the progress of the work" to a total sum of \$250,000. British Columbia received no assistance from the Dominion in the construction of the graving dock under this Act.

It was further provided in this Act of 1874 that the Provinces could borrow from their "excess debt" accounts for the construction of "local" works, with the right to repay the loans "on such notice in such



"sums and on such other conditions as the Dominion Government and the provinces may agree upon."

British Columbia borrowed \$189,500 from the Dominion for local improvements and public works under the Act of 1874, which was not repaid and was accordingly subtracted from the Province's debt allowance. In addition the Province obtained \$150,000 from the Dominion Government for local public works with the right to repay the loan by July, 1876. There appears to have been some misunderstanding between the Dominion and the Province as to whether it was a temporary loan, which was the Dominion's interpretation, or an outright grant for the graving dock at Esquimalt, which was the Province's viewpoint. When British Columbia failed to repay the "advance" in July, 1876, the Dominion subtracted this further sum from the Province's "excess debt" account.

The sum of these two "advances" (\$339,500) reduced British Columbia's "excess debt" account from \$844,077.63 to \$505,577.63.

On the failure of the Dominion Government to assist the Province of British Columbia in financing the graving dock under the Act of 1874, further representations were made to Ottawa. These representations were rewarded with the passage of an Act in 1880 which again authorized the payment of "advances to the province as the work progresses" to a total sum of \$250,000. Under this Statute the sum of \$47,660.22 was advanced by the Dominion Government as its share of the expenditures on the graving dock certificates 1 to 4 inclusive, during the fiscal year 1881-1882 (July 1 to June 30).

The problem of financing the graving dock was settled in 1884 when the Dominion Government took



"over the administration and construction of the project. Under the "Settlement Act" the Federal Government agreed to complete the drydock as a Dominion undertaking, and, in addition, pay the Province a total sum of \$384,512.66. This sum included a "settlement" grant of \$250,00 and \$134,512.66 for those expenditures which the Province had made up to 1884 in constructing the drydock.

The Act of 1884 further provided that the Federal Government would give a subsidy of \$750,000 to the Vancouver Island Railway Company upon the transfer of the 1,900,000 acre grant to the Dominion to assist a private company in financing the project. In addition, a block of land comprising some three and one-half million acres in the Peace River Area was turned over to the Dominion to compensate for deficiencies in the former land grant to the Canadian Pacific Railway, which arose principally because of a relocation of the line through the Kicking Horse Pass in place of the Yellowhead Pass.

A further adjustment was made in the debt allowance to each of the Provinces in 1884, which was made retroactive to 1867. The increased debt allowance arose from a request of the Provincial Government of Quebec that the interest charged on the "excess debt" of Ontario and Quebec for the six years 1867-73 inclusive, should be repaid. The method of computation was complicated and the Dominion Government, to clarify the adjustment, set down the amount that each Province was to receive in the Act."

That is as far as I think I need read for the strictly



historical references I am giving for the moment.

Now, I go back to my text again at Page 6, the second to last paragraph:

"It is submitted that the method of adjusting the relations between the Dominion and the Province adopted at Confederation was not a competent method to be applied to British Columbia and overlooked in its computations many of the essential factors applicable to this Province. Tested by the rule of thumb method of measurement provided in the Confederation agreement, British Columbia may appear to have been treated fairly or even generously. But measurements which entirely overlook many of the essential subject matters to be measured cannot be relied on in determining what is fair or what is generous.

It has already been stated that even in the case of the four original provinces, the financial adjustment was an expedient to meet existing conditions in specific provinces. It was never a formula to be applied to other places and other times. In fact, it was declared by Sir Charles Tupper that readjustments on a proper basis would have to be made."

Now, I want to read that, Mr. Chairman. It is found at Page 3 of the main brief, Part II:

"June 11, 1869, during the debate on additional financial assistance which it was proposed should be given to Nova Scotia, the official report of the debate records that Sir Charles Tupper said:

"Sir Charles Tupper revealed the most interesting fact that the financial clauses of the 'British North America Act' had never been designed, in their original form, to be permanent. It was distinctly





"understood at the Quebec Conference, he said, that the financial clauses as set out in the B.N.A. Act were to be only temporary -- a means by which a quick agreement between the confederating Provinces could be made -- and that after Confederation had been accomplished it was intended to have Provincial and Federal commissions set up to make an exhausting inquiry into the needs of the Provinces."

Sir Charles was a prophet. It has taken 70 years to bring it about:

"After this inquiry had been completed it was intended to make a just and final settlement. But the Act in its Original form was only a stop-gap, and in framing these clauses the Fathers of Confederation had not had any idea of their being considered permanent."

THE CHAIRMAN: I see this is taken from the budget's speech of the Hon. John Hart. Does that disclose where this original extract can be found? Have you it?

HON. MR. FARRIS: I thought Mr. Hart was the final authority, I did not go back of that.

THE CHAIRMAN: It is interesting to get the whole discussion.

HON. MR. FARRIS: That can be provided.

THE CHAIRMAN: You see, that does not seem to be quite consistent with the statement of Sir John MacDonald in the House, when it was before the Legislative Assembly of Canada, that it was in the nature of a treaty and could not be changed in any respect whatever without upsetting the whole thing, but this may be the correct interpretation of it, I am not questioning that at all. I would like to see the whole discussion.

HON. MR. PATTULLO: If I might interject there a moment,



I remember at Quebec in 1872, Sir Alexander Galt, I think it was, said it was obvious on the face of it that it would be a hiatus between the revenue and out-go on the part of the province which must be made up out of the moneys that were being turned over to the Dominion Government. He didn't use the exact words "out of the moneys turned over to the Dominion Government" but he used the words "hiatus between the revenue and out-go."

COMMISSIONER D. LFOE: Was that reference in the parliamentary debates of Canada or is it found in the Sherbrooke speech?

HON. MR. PATULLO: No, I think it was the debates of parliament but I can look it up definitely.

HON. MR. FARRIS: I am referring to my brief again at the top of page 7:

"When British Columbia joined Confederation her duties and customs and excise bore a vastly different relation to her population than did those of the Eastern Provinces to their population."

I have had that checked up with figures, Mr. Chairman, which I want to put on the record; they are not in the brief. The per capita import duties as of 1869, British Columbia \$10.49; Ontario \$1.32.

THE CHAIRMAN: Apparently they had a high tariff then.

HON. MR. FARRIS: A high tariff. Quebec \$3.67. Of course, a high tariff that protected the industries of British Columbia is a different thing from a tariff that has other effects. Quebec \$3.67, Nova Scotia \$2.88 and New Brunswick \$3.25. The average per capita for customs duties in Canada \$2.42. British Columbia at that time was \$10.49.

COMMISSIONER D. LFOE: Mr. Farris, can you give an analysis as to why they were so high? I mean was it a continuing condition, a condition which would have



continued, or is there some explanation of it, that is of some temporary basis?

HON. MR. FARRIS: You understand what this is, Mr. Dafoe? This is not the rate, this is the per capita income derived from the importations.

COMMISSIONER DAFOE: Would it have been a continuing condition if you had remained as a separate unit?

HON. MR. FARRIS: This is not the rates. The returns may increase with the lowering of the tariff, they usually do. A protective tariff as such defeats the very purpose of revenue. It is only in so far as it fails to do that that you get revenue from it. Now, I will give you the rates for 1935 and '36 which I have here as well --

THE CHAIRMAN: Perhaps you could check up on Dr. Dafoe's question. Were the imports in the year you have taken of such a character that it was likely to be a permanent condition or were they of such a character that they were special? In other words, were you taking in capital goods?

HON. MR. FARRIS: I took the year 1869 because it was the last year before Confederation, that was the reason it was taken, and nothing has been called to my attention to suggest any special condition at that time. I am sure that the young man who made this report, if there had been any such thing, would have advised us of that fact. But the question you asked, and we will be very glad to have it checked up, but, Mr. Chairman, may I answer Mr. Dafoe further by giving the rates for 1935 and '36. British Columbia \$9.62. Of course this will involve many other considerations as to how far importations under Confederation were consumed in British Columbia and that is discussed at a later part of the brief, but I am giving you the figures as they appear in the records. Ontario \$12.11; Quebec



\$6.91; Nova Scotia \$2.81; New Brunswick \$3.67. So that the average in Canada was \$7.51 and British Columbia is \$9.62. The rate in British Columbia has dropped from \$10.49 to \$9.62.

COMMISSIONER DUFFO: That is based on customs?

HON. MR. FARRIS: That is based on customs.

COMMISSIONER DUFFO: The duties at customs houses?

HON. MR. FARRIS: Quite. And I say I did not want to mislead the Board on that fact, because that fact is discussed later in our brief, as to how far collections in British Columbia <sup>can be</sup> allocated to British Columbia, but I do not want to go into that now, it comes up later in the brief. But the point I was pressing for the moment, the principle, the formula, if I might use that, which was applied to provinces in adjusting, compensating them for losses in the customs duties were two; first, the obligations the Dominion took over and relieved the provinces of, and, second, the grants that were made. I say there was no logic in the adjustment on the basis of population in view of those figures I have given.

Continuing on that same proposition, in the same paragraph:

"Her territory and cost of government also bore an entirely different relationship to her revenues and her population."

I do not think the Board would require argument to convince them of that proposition.

"The Dominion Government fully recognized this fact by/ <sup>the action</sup> which was taken. Political exigencies made it necessary to use the same method of determining the grant as had been used at the time of the original union. Actual conditions, however, made it necessary to resort to fictitious assumptions to correct at least in





"part the deficiencies of the formula. The population of British Columbia at this time was 34,100. The population assumed for the purpose of the grant and per capita debt adjustment was placed at 60,000. This increase was not a discriminating favour to British Columbia, but was an attempt to correct in part the shortcomings of the method of computation."

THE CHAIRMAN: British Columbia at that time asked that it should be originally fixed at 120,000?

HON. MR. FARRIS: Yes, and when we come to discuss another part of this brief comparisons will be made between the fictitious assumption of population in British Columbia with the prairie provinces, but I have that under another heading. I was trying to think, Mr. Chairman, of a quotation applicable to that formula. I think it is that they cast their facts in the mould of their hypothesis.

THE CHAIRMAN: Pardon?

HON. MR. FARRIS: The quotation is from Lord Macaulay, I think, that they cast their facts - he was suggesting that an historian is apt to cast his facts in the mould of his hypothesis. And it has some relation to what was done here on this artificial method of computation.

"A further adjustment was made by allowing the province \$100,000 a year in consideration of the Province turning over the lands of the "railway belt." Professor Maxwell says of this grant:"

THE CHAIRMAN: Is not the historical fact this, Senator Farris, that in the negotiations British Columbia agreed to turn over certain lands to assist in the construction of the railway, finding the assumed population did not give them the amount of money they felt they needed, and so Sir George Cartier proposed that they should have



\$100,000 a year in consideration of turning over the lands they had already agreed to turn over in consideration of the building of the railway, and they were paid twice in that way. At least, that was suggested as a method of doing it.

HON. MR. FARRIS: Not paid twice. Well, I have a quotation here from Professor Maxwell that covers that very thing, Mr. Chairman. I agree that this was a device to cover up what was recognized as a necessary grant but apparently the public men of Canada at that time were afraid to bring it into the House of Commons in its bared form, so it was covered up in this way.

THE CHAIRMAN: They were not prepared to recognize fiscal need in principle.

HON. MR. FARRIS: They were prepared to recognize it but they were not prepared to face the political consequences in the House of Commons.

THE CHAIRMAN: They were not prepared to recognize it in principle but they adopted it in practice, you say, and put it in another way.

HON. MR. FARRIS: Professor Maxwell makes this reference:

"The scheme was definitely a stratagem invented because of the fiscal need of British Columbia and because the Federal Government desired to bring another Province into the federation."

Unfortunately, Professor Maxwell, having recognized the need of British Columbia, has not in his work shown an understanding of the reasons why this need existed, or of how inevitable it was that the development of the Province would accentuate the need and make progressive adjustments necessary.

A settlement was declared to be final which was based on immediate expedience only and which gave



no heed of to-morrow. Nothing is settled until it is settled right, and no partnership relation is enduring which is not fair.

THE CHAIRMAN: Was it in 1884 or sometime in the 80's there was a subsequent adjustment?

HON. MR. FARRIS: Yes, that was the one which I have read.

THE CHAIRMAN: Which was declared to be final in settlement of all claims.

HON. MR. FARRIS: Yes, I do not think there is any doubt about that. Of course the existence of this commission is a repudiation of that.

COMMISSIONER DAFOE: It was declared upon the floor of the House in 1884, which I heard myself because I was at that time a very young man in the press gallery --

HON. MR. PATTULLO: May I interject there? The Dominion had agreed to a commission and the war came on and that was postponed, so nothing was done.

COMMISSIONER DAFOE: There was a declaration that a minister had come out and fixed everything up with British Columbia, and the House could only revoke the agreement, when all questions would be finally closed.

THE CHAIRMAN: We are here to consider whatever your real claims are but I thought it was a step in the programme which had not been mentioned, a special bonus in 1884, which was stipulated that it should be final in settlement of all claims.

HON. MR. FARRIS: I appreciate that and there are circumstances that might be criticized but I feel you are neither assisted nor handicapped by any settlements of that kind that were made sixty or seventy years ago or even more recent times. I think the recitals and the appointment of the powers given this Board are open on that



question.

THE CHAIRMAN: That is true. In dealing with the relations between the provinces and the Dominion and the Dominion as a whole, the financial position is open for consideration, but when you are dealing with the special claim of British Columbia and then these various settlements from time to time made, are they are not factors which we must take into account in arriving at what is the proper thing to do at the present time?

HON. MR. FARRIS: Of course, as Premier Pattullo has pointed out, a commission was promised on this point before the War.

THE CHAIRMAN: I quite agree.

HON. MR. FARRIS: And I have pointed out also that it was definitely understood between Canada and its provinces that this agreement would function in this way as well.

THE CHAIRMAN: That is perfectly true, Senator. I thought probably the claims that British Columbia had were claims that had arisen since 1884.

HON. MR. FARRIS: Well, they are.

THE CHAIRMAN: Claims for special consideration?

HON. MR. FARRIS: Well, I don't know just what is meant by that. They are claims which became manifest after 1884 and what I propose to do in the succeeding heading of my case is to read to the Board a summary that has been prepared of the complaints for forty years consistently presented. I do this with a little reluctance because it will be tiresome reading, and it will not only be tiresome to the one who reads it but also to the Board, yet some of it is interesting and I feel it is necessary in order to make clear the whole setting and the suggestion is to present the substance, beginning in 1900, of the representations made by this province to the Dominion of Canada in





connection with the relations between the two, and that will take a little reading. I was reading at page 7 and I think we come now to a summary of the previous representations.

THE CHAIRMAN: Well, we will rise now until 2.30 P. M.

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(Page 4910 follows)



## AFTERNOON SESSION

The Commission resumed at 2.30 p.m.

THE CHAIRMAN: All right, Senator Farris, will you please continue?

HON. MR. FARRIS: Mr. Chairman, I stated before lunch, before discussing in detail these reasons I am advancing as to why British Columbia should have further consideration, I wish to ask you to consider the summary which has been prepared of the previous representations. I may say, Mr. Chairman, I am coming back to-morrow, with your permission, to that question of the 1884 agreement. I am not doing that this afternoon, but I had that in mind, in view of what was said we should consider that further. In the meantime, I content myself with this statement, that for the last forty years there has been a continuous, consistent pressure from this province that British Columbia was entitled to further consideration. I think it is important that we should read the substance of these representations in order to give a background before I present them in their modern form. Some of them will not be emphasized too much and some will be emphasized very much. There are some new conditions to be considered, such as unemployment, but on the whole, I think the background can only be properly before you if we read the narrative which has been prepared in this statement, so I am asking you to begin on page 12:

"The financial settlement with British Columbia continued to prove unsatisfactory, and in 1900 a delegation headed by the Honourable James Dunsmuir



"proceeded to Ottawa 'to lay before the government of Canada certain matters requiring adjustment between the two governments and to present certain claims of the province of British Columbia for increased recognition at the hands of the Dominion'. Many matters affecting British Columbia were discussed, including the financial relations of the province of British Columbia and the Dominion of Canada. The Honourable James Dunsmuir stated in a letter to Sir Wilfrid Laurier: 'There is a well-known disposition on the part of the people of Eastern Canada to regard the building of the Canadian Pacific Railway as a sort of contribution to British Columbia sufficient for all time to come. The fact is that, by the building of that railway, an outlet in the whole of the North-West has been afforded bfor the Canadian manufacturer and the wholesaler greater in its benefits than the sum of all the other acts of statesmanship since Confederation, not to speak of the tremendous possibilities which have been opened up for trans-oceanic traffic, and the importance which this development has given to Canada in the eyes of the world. In my opinion it has made Canada a nation and, in a large measure, saved it from the fact of annexation with the United States, which only the vision of a Confederation of provinces, united by a railway and cemented by trade interests, could have averted. As the situation is at the present time, British Columbia is paying for those advantages and Eastern Canada is reaping them.'

Dealing with the question of financial relations



"between the province and the Dominion, Honourable Mr. Dunsmuir presented a statement of revenue and expenditure of the Dominion Government in the province of British Columbia in which he claimed that from 1872 to 1901 the Dominion government had obtained revenue amounting to \$42,000,000 from the Province, which was on a much higher basis than that of any other part of Canada, and that over a period of thirty years 1/55 of the population had contributed about 1/20 of the revenue of Canada. This revenue was mainly from customs, and it was pointed out that at that time--as distinct from other ports in Canada--goods arriving at British Columbia ports were consumed within the province. It was also pointed out that the total amount expended in the province during the same period was only \$29,000,000."

I might say that on that aspect of the case, I do not propose to present argument because, in the first place, I do not see how it is possible to work out how much is spent in any province when we charge its fair share of all services which are common to all of Canada. It is almost an impossible thing to do; I know Dr. Carrothers and his staff have worked upon it. I think it is unsound to consider it at all because expenditure made by Canada out of national revenue is money spent for Canada, it is not spent for one province any more than for another. You could collect revenue from British Columbia and then start allocating it back to where the tax came from, but it is unsound in application. It seems to me that that question which is presented in the previous Brief of British Columbia is not on a sound basis. So far as my Brief is concerned, it will





not be pursued further. It could only come up--and then I think it comes up in an administrative way--it could only come up if the populous parts of Canada believed they were being unfairly treated. It does not seem to me that it is on a sound basis, and certainly it is not on that basis that I present the argument which I am now making:

"It was emphasized that at that time, through the revenues accruing to the Dominion, British Columbia had not only practically paid its own way and repaid the Dominion for its expenditures in the province, but had also become liable for its share in the increased debt of the Dominion government. It was also pointed out that, because of the physical features of the province, the great distances to be covered, and the difficulty and expense of communications, the cost of Government per capita was high in British Columbia. It was stated that in order to enable British Columbia to carry on successfully it would require a larger population, which would necessitate development of its resources, and that this was impossible so long as the revenues of the provinces were drained by the Dominion government.

In 1903 a second delegation visited Ottawa under the leadership of Honourable E.G. Prior, and the main subject of discussion was again the readjustment of financial relations between the province and the Dominion. At this time there was also an inter-provincial conference held at Quebec to discuss the problems of the Confederation. In his statement



"the Honourable Mr. Prior said (British Columbia, Sessional Papers, 1903, p. K 6): 'The position we take is not that the Dominion government has violated the Terms of Union, or that we are entitled to compensation for lack of fulfilment in any substantial respect, as the performance of a legal contract could be construed; but we do contend that in the development of the constitution, in its actual operation, from the date of Confederation in 1871, that a state of affairs has grown up in British Columbia and in the Dominion, as the result of the union between the two, that has established a moral right and a sound constitutional claim on our part for increased recognition--and a state of affairs that was not anticipated by either party to the Federal compact.'

He further stated:

'At the time of the British North America Act, or the British Columbia Terms of Union were passed, it was impossible for either party to foresee the results of union, or to fix in an absolutely definite way and unalterably the financial relations, so as to provide equitably for all time to come for the requirements of both classes of governments; and that it was the evident intention of the framers that adequate provision should be made for both;

That with reference to British Columbia, although it is not contended that it was forced into Confederation as it is claimed Nova Scotia was, yet



"the circumstances and conditions of the province were such that there was little alternative left to her in the matter of terms;

That the terms were not the terms the people of British Columbia asked for and believed were necessary for the adequate administration of local affairs and the development of the country;

That, as shown by the debates which took place both in the local House and in the Houses of Parliament, at Ottawa, in neither case were the framers of the terms able to accurately or even approximately foresee what the results would be, and that in a great measure for both it was a leap in the dark;

That the people of British Columbia did, from a local knowledge of their own province, appreciate the necessity of and stipulate for a much larger provision for the financial requirements of the province than was conceded by the Dominion."

THE CHAIRMAN: Senator Farris, just in passing, what provision was asked under the terms of union, in reference to financial aid which was not granted?

HON. MR. FARRIS: I am sorry, I am not quite following you.

THE CHAIRMAN: What terms, in reference to the financial basis of union were asked for by British Columbia and were not granted, save that the population was not assumed to be 120,000 as British Columbia requested, but was assumed to be 60,000?

HON. MR. FARRIS: I think that was the only one, at that time.



THE CHAIRMAN: British Columbia got at that time, \$100,000, nominally, in consideration for the Crown lands. The \$100,000 would be substantially the amount, would it not, annually paid, if the population had been fixed at 120,000.

HON. MR. FARRIS: I do not think it would be more.

THE CHAIRMAN: If you take eighty cents per head, it is \$48,000, is it not?

HON. MR. FARRIS: In any event, at no time, and certainly not in our presentation to-day, is there that suggestion. In fact, what I read to you this morning rather indicated that British Columbia, at the time, in 1870 was satisfied. The difficulty is, not that the adjustments were inadequate as of that time, but that it was assumed that adjustments which would be satisfactory in 1871, would be satisfactory in 1900 or 1937.

THE CHAIRMAN: I am only having in mind the representation or statement purporting to be made by Mr. Prior which you have just read to us. It stipulates a much larger provision for the financial requirement of the province than was conceded by the Dominion--If I am in error--

HON. MR. FARRIS: I think that is a fair criticism and I might dispose of it by saying that I think British Columbia got, in 1870 what it expected to get. The province did not get it on the contention upon which it asked for it, but assuming that the historical statement is correct, that the \$100,000 was an adjustment of this question, and not really a payment for the land, then I think that is a fair criticism. Of course, that brings us back to another matter which will come up. I am not pressing this matter





very strongly, either, but assuming that the \$100,000.00 was not for the land, when the Martin Commission gave British Columbia back its land, it did not deal with the question of compensation for the use of the land. As I say, I am not pressing that with any force, because I do not think it is one of the material questions to be considered at this time. I merely mention it because it does dovetail in with this other question.

THE CHAIRMAN: The real question was, how much was needed to carry on the local government of the province? The representations of the province of British Columbia were that the province needed to carry on the local government a sum, I assume, to be arrived at on the basis of a population of 120,000. The government of Canada, thought it could not grant that and thought it could not allow more than 60,000 as a basis. As the railway was then going through, Sir George Cartier, suggested, "We will give you \$100,000 in consideration for the land." In other words, he gave them \$52,000 more than they asked and British Columbia accepted it. I quite recognize, Senator Farris, the point you make is that in the agreement made at that time, however fair and reasonable, as it seemed to the parties, it is not one which can be applied without modification to the conditions existing to-day.

SENATOR FARRIS: Yes, I am going to ask you to excuse me for a moment and permit Professor Carrothers to read.

DR. CARROTHERS: I will continue to read from the point where Senator Farris left off:

The special difficulties of British Columbia were claimed to be:

1. The cost of administration, owing to the



" physical character of the country.

2. The distance from the commercial, industrial, and administrative centres of Eastern Canada.
3. The non-industrial character of the province as compared with Eastern Canada whereby a larger percentage of goods are imported and consumed, increasing the contributions to the Federal Treasury, in the way of taxes, in a ration of three to one.
4. The disadvantage of the province in relation to the markets for its special products.'

Another delegation visited Ottawa in 1903 and financial relations were again the main point at issue, no action having been taken by the Dominion government as a result of the submission of the previous delegation.

'It was pointed out that it was not intended that the financial relations existing at the time of Confederation and adopted as a basis in connection with the distribution of revenues should be unalterably fixed for all time to come; or, at least, it was not such an arrangement as should always exist. Conditions have changed and the development which had occurred, more especially in British Columbia, pointed to the equity of a readjustment from time to time. The desirability of periodical readjustments was suggested. As pointed out, in the Report of the Delegates of 1903, the probable outcome of Confederation, under the Terms of Union with British Columbia, could not possibly have been foretold. All the evidence to be gleaned from the debates in Parliament, both at



"Ottawa and at Victoria, at that time, goes to show that the matter was not understood. The predictions then made in both Houses have not been realized, and an entirely different state of affairs has come to exist from what was anticipated at Ottawa. The members of the delegation submitted that the position of British Columbia in the Union was greatly prejudiced as a consequence. Instead of remaining a drag on Canada and a financial burden, the province has become, from a revenue-producing point of view, the best asset the Dominion has, and has contributed far more to the Dominion Treasury, in proportion to population, than any other Province of the Dominion, the ratio per capita contribution being three to one compared with the whole Dominion. It did not follow that periodic readjustment would always result in the payment by the Dominion of increased subsidies to the province.'

The basis of argument for financial readjustment was similar to that of the previous delegation. British Columbia had joined with the other provinces in requesting a readjustment of financial conditions but had also made a separate claim. To this, objection was taken by the Dominion Prime Minister, who said: 'I would see very great difficulties in having separate arrangements for each of the provinces, and it seems much more natural that, if the subject is taken up, it should be so taken up with the view of laying down a uniform systematic and final basis which should work and apply mechanically to the component elements of our federative union.'



" To this the Honourable Richard McBride replied:  
'You deprecate the idea of separate arrangements with the province, and advocate something which will be automatically uniform. So far as such an arrangement can be shown to be possible, I sympathize with your view, but we are now dealing with a set of conditions which are not and have not been uniform in their effect, a fact which is the principal burden of our complaint. I beg to remind you that the financial arrangements in respect to all the provinces are separate. The treaty of this province with the Dominion is a separate contract; and so long as conditions differ in provinces, so long must their financial relations differ. It is impossible to foresee developments of the future, and consequently impossible to adequately and equitably provide for them. My idea of a solution is a provision for periodic adjustments rather than an attempt to make a permanent arrangement such as you suggest. The Australians anticipated our difficulty in their new Constitution by stipulating for a return of the revenue to the parent State after a certain contribution to the Treasury of the Commonwealth had been reached. Some arrangement of this kind should have been made in Canada at the outset.

'The position of the province of British Columbia is this: We say that the conditions which do now and have always existed are so radically different from the rest of Canada--although the sources of revenue are the same--as to have imposed special burdens on our people and constituted grievances of a





"special character. We have set out in a series of representations what these special conditions and grievances are. These representations have been before you for some time, and no single statement contained in them has been denied or refuted. Failing other recourse, we have asked for a commission to find whether these grievances are real and substantial or invented for political effect, as has been alleged. This has been denied us."

A further statement of the case of British Columbia was made in 1905 in which the high cost of provincial administration, because of the extent and topographical character of the province was emphasized, particularly with reference to road construction. It was also pointed out: "British Columbia's per capita expenditure for Civil Government, arising out of the services of the government required in widely-scattered communities, is over nine times that of the average of the other provinces."

It was also pointed out: "The second cause which operates disadvantageously towards British Columbia is its position in relation to other provinces and other countries, which adds, as additional imposts, long-distance freights to the first cost of articles imported for use and for local manufactures; and also minimizes to an unusual degree the advantages to be derived from inter-provincial trade, which was the commercial object of Confederation"

It may be pointed out here that, until the opening of the Pacific railroad, the fact that British Columbia



"was part of the Canadian free trade area was of no benefit to the province whatever. Even after the opening of the railroad the population of the prairie hinterland was so small for a considerable time that it could not possibly have provided a market of any significance. In 1881 the population of Manitoba was 62,260, and that of the North-west Territories, 56,446. In 1891 the population of Manitoba was 152,506, and that of the North-west Territories, 98,967. Even in 1901 the population of the prairies amounted to only 619,841."

HON. MR. FARRIS: Pardon me, Professor Carrothers, but I have the next part marked to be omitted. We will omit from this point until the middle of the next page. It is not because it is immaterial but it is covered in another portion of the Brief. Page 16, near the middle of the page, I continue to quote:

"A Conference was held between the provincial governments and the Dominion government in 1906 for the purpose of discussing financial subsidies to the provinces. This was attended by Honourable Richard McBride (later Sir Richard) representing British Columbia. It was urged that, apart from any general settlement as between the Dominion government and the provinces, British Columbia had a claim to special treatment. This was admitted by the Conference, and the Conference was asked for a decision as to the extent of the special claim of British Columbia. Mr. McBride protested the submission of British Columbia's case to the Conference, as he believed



"it to be a matter for arbitration, the question being one solely between the province of British Columbia and the Dominion government. It was decided to grant to British Columbia the special sum of \$100,000 annually for ten years. McBride considered this inadequate, and his submission not being considered favourably he withdrew from the conference. It was finally decided to increase the grants for the support of the government and also to raise the limit of population on which the per capita subsidy was to be paid. This resulted in an increase in the grant for support of government in British Columbia of \$115,000 annually.

It was proposed to bring these new arrangements into effect by amendments of the B.N.A. Act, and the terms were declared to be final and unalterable. This latter was objected to strenuously by McBride who protested in person in London and succeeded in having this clause removed from the amending legislation. McBride stated (British Columbia, Sessional Papers, 1908, page C-2): 'With reference to the various discussions I have on the subject of my mission, I found that the feeling at first prevailed that as the Dominion Parliament and the governments of the provinces of Canada, with the single exception of that of British Columbia, had asked for the Bill in the form proposed, the Imperial Parliament was bound to respect their wishes, and give them effect. Otherwise, it would appear as an interference in the domestic affairs of Canada, a course to which His Majesty's Government or the members of the Imperial



"Parliament would be wholly adverse. I had some difficulty in dissipating this view of the case, but I was, as you will observe by the correspondence, quite successful. I endeavoured to make it clear that, while in some respect Confederation might be regarded as a pact among Provinces as well as with the Dominion, the Terms of Union, in each instance, represented a separate and distinct treaty with Canada, entered into without reference to the terms granted to other Provinces, and that, therefore, it followed that in changing the Terms of Union we had to deal with the Dominion alone. To say that British Columbia was bound to accept the terms of subsidy recommended by the other provinces would be to coerce that province and to seriously invade provincial rights. I asked that the province be permitted to settle its own way; and pointed out that, so far as such a course being one of interference in the domestic affairs of Canada, it left the Imperial authorities in a position of perfect neutrality; whereas, passing the Act in the form proposed, the Imperial Government was taking sides with the Dominion of Canada against the province in their dispute and confirming an act to which the people of British Columbia were utterly opposed. I am happy to say that this view ultimately prevailed and the Bill in its modified form, with the words 'final and unalterable' eliminated, was introduced and passed in the House of Commons without opposition."

COMMISSIONER DAFOE: Can you tell me whether Mr. McBride's representations made in London were limited to having these





words excluded?

HON. MR. FARRIS: As far as I know, my memory does not carry me back to that time, although I was in the province at that time..

COMMISSIONER DAFOE: Just from memory, I think he objected to the financial arrangements.

HON. MR. FARRIS: He had already taken that position when he left the Conference in Ottawa. It was reported in the papers, I remember very distinctly, that he slammed the door as he left, metaphorically speaking, I suppose.

COMMISSIONER DAFOE: I think that would be metaphorical. My memory is that he wanted the Imperial Parliament to in some way indicate its disagreement with the financial settlement. The statements to the Imperial Parliament by Mr. Churchill that these sentences should be deleted were based upon the statement that the Imperial Parliament never inserted any such clause because it was obviously useless on its face.

HON. MR. FARRIS: On the other hand, Mr. Dafoe, I am not sure how correct Mr. Churchill was in making such a statement, because if it was put in as a basis of a contract, then I think it would be proper in an Act of Parliament.

THE CHAIRMAN: This much is clear, that Mr. McBride did not agree with what the other provinces agreed to at that time. I suppose so far as all the provinces were concerned, it was a grant by the Dominion which no province was entitled to compel the Dominion to make. However, the Dominion discussed the matter with the provinces and thought it was proper to make it. I do not suppose there was any



contract at that time, but apparently the other provinces agreed, and, so far as they were concerned, it was final and unalterable. However, it did not last for very long.

HON. MR. FARRIS: There is nothing which can be final and unalterable. If the Imperial Parliament relied upon the theory advanced by Mr. Winston Churchill that Parliament will not impose its will upon a future Parliament that must be because, I take it, that Parliament would not hesitate to impose on a future Parliament the obligation to adhere to a contract which had been solemnly made and intended to be final.

THE CHAIRMAN. If you are not bound by the agreement made in 1884, which was final and unalterable, you cannot be bound by the 1936 agreement to which you did not agree.

COMMISSIONER DAFOE: Mr. Fielding finally admitted in the House in 1907, that it was just so many words and it had no binding force.

HON. MR. FARRIS: I will continue to read;

"In 1911 McBride again headed a delegation to Ottawa to discuss Dominion-Provincial relations, and on this occasion he succeeded in securing an agreement on the part of the Dominion government to appoint a Royal Commission of three members to investigate the claims of British Columbia for special treatment. One member of the Commission was to be named by the Dominion, one by British Columbia, and a third was to be selected by these two, or in the event of a disagreement, by the Colonial Secretary. The Dominion and provincial members of the Commission



"were appointed, but before the third member was selected the Great War broke out and the Commission never met.

However, a "Memorandum Respecting Claims of British Columbia for Better Terms" was prepared, and emphasis was placed on the high cost of government due to the physical configuration of the province, which renders local administration exceptionally expensive and difficult, and in a ratio of great disparity as compared with those of other provinces. The physical aspects of the case of the province for special consideration include also geographical isolation and all such considerations as arise out of the peculiar configuration and geographical position of the province.

These have caused a local cost of administration in respect to all branches of the public service disproportionate to the cost of similar services in the other provinces, on account of which the allowance from the Dominion has from the outset been wholly inadequate; which has imposed an additional burden in the way of through and local traffic rates to be borne by the local consumer, and minimized to the lowest degree the opportunities and advantages of inter-provincial trade, which constituted the main objects of Confederation; and which have accounted in a large measure for the unusually large contributions on the part of the province to the Dominion in respect of customs levies, also for the sparseness of population upon which the burdens of state



"must rest in relative disproportion as compared with provinces like those of the Middle West capable of compact settlement throughout."

It was pointed out that, owing to the inadequacy of the financial provision for government in the province of British Columbia, the government had to "pawn the subsidy" and impose a series of taxes which did not exist in the other provinces of Canada: personal property, real property, income, and revenue taxes."

Then, we quote from the same memorandum:

"Eastern Canadians were for a long time wholly ignorant of British Columbia, and very indifferent about its welfare. In fact, generally speaking, the mental attitude of the people towards the province for about thirty-five years was not only of a negative character, but to a very considerable extent unfavourable; not intentionally so, but, because they did not understand the real situation and had been prejudiced on account of a long political fight in which British Columbia and the Canadian Pacific Railway were the principal issues. Hence, even if various governments had been more favourably disposed, the mental attitude of the people as a whole would have prevented a betterment policy being carried out. British Columbia was not only commercially isolated, but she was politically isolated as well.

For a proper knowledge of the case it is necessary to consider the conditions which existed at the time British Columbia entered Confederation, and the mental





"attitude in which the Terms of Union between the province and the Dominion were framed. Public sentiment, as represented in Parliament, was prejudicial to more favourable terms being granted. A large section of Canada was utterly opposed to union with British Columbia on the terms under which the construction of a trans-continental railway was rendered obligatory. It was only upon grounds of large public policy of a national character--the rounding out of Confederation--that their adoption was justified. It was almost universally conceded that the province, physically handicapped as it was, would not pay its way in Confederation, and it was strongly contended that the construction of the Canadian Pacific Railway--an essential demand of British Columbia--was too great a sacrifice on the part of the Dominion, and that the railway when built would prove unremunerative. Consequently, the financial terms conceded to British Columbia were the least favourable possible, and without any adequate knowledge of its financial requirements.'"

THE CHAIRMAN: Senator Farris, these are just representations which were made--of course, there are statements there in that paragraph which do not occur in the records as I understand the records. As a matter of fact, the terms were debated in the British Columbia legislature, and British Columbia proposed its own terms.

HON. MR. FARRIS: I am going to give the Commission a reference to that. I have an Act here, and I will give the reference to that later, probably in the morning. I



think it would be well, Mr. Chairman, if you would, as you are now doing, make your comments as I am going along.

THE CHAIRMAN: The whole point here is that while these representations were made and in that respect you are just reading them as such, we cannot, because they are representations that were made at that time, accept the statements as being correct.

HON. MR. FARRIS: I appreciate that, and as any such statements occur to any member of the Commission, I think it would be well for him to have attention drawn to them as we are reading along. Then, we could leave the answer to it, as far as there is one to be made.

COMMISSIONER DAFOE: This memorandum was not made public at the time; there was no body to whom it could be made public?

HON. MR. FARRIS: It was on our files here.

COMMISSIONER DAFOE: This Commission never came into being, did it?

HON. MR. FARRIS: No, the Commission never functioned. You see, Mr. Dafoe, what I am reading this for, primarily, is to give a background for our argument which I am presenting, as of to-day. I think it is essential to have this Commission appreciate that this is not something which was thought up for the moment. It is a continued presentation or attitude by the authorities in British Columbia for the past forty years.

COMMISSIONER DAFOE: It is valuable on that basis.

HON. MR. FARRIS: Whether this was presented or not, it has equal force as reflecting the considered position of the government at the time.



"A similar attitude towards British Columbia was maintained as long subsequently as 1884, when the Settlement Act was passed, whereby the outstanding differences between the two governments were finally adjusted. By means of the Settlement Act, the Province, tired of delays and wearied with fruitless negotiations, agreed to transfer 3,500,000 acres of the best land of the Province, in lieu of net expenditures on the part of the Dominion, amounting in all to about \$1,250,000. These lands worth now at the lowest valuation \$35,000,000, together with 2,000,000 acres of land on Vancouver Island, including all their valuations - worth at least \$25,000,000 - were parted with to secure a railway from Esquimalt to Nanaimo, costing less than \$3,000,000, which under the terms of the Carnarvon Award was to have been built by the Dominion without cost to the Province. The value of such concessions was not then foreseen. The treaty of 1871, as amended in 1884, was made, by both parties to it, in misapprehension of the possibilities of British Columbia and the development to accrue from the building of the Canadian Pacific Railway.

"The subsequent course of events has shown that British Columbia has not only paid its way in Confederation, but has contributed in forty years about \$35,000,000 in excess of what it has cost the Dominion; that the Canadian Pacific Railway has been instrumental more than any other factor in raising up Canada to the proud position which it occupies today, with benefits vastly greater to the rest of Canada than to British Columbia; and that the Settlement Act gave a realizable asset to the Dominion thirty times greater than the



expenditure which it involved.

"The Government of British Columbia submits as incontrovertible that the original and amended terms of Union having been based upon assumptions which have proved groundless, and that as the very opposite of what had been anticipated has transpired, it is incumbent upon the Dominion, morally and constitutionally, in the light of developments which have actually taken place, to now substitute fairer terms for those perforce made in anticipation of what did not happen."

"In connection with the building of the Pacific railroad, it was claimed that British Columbia made an unduly large contribution. It was understood that the railway should be built mainly out of land subsidies, and that all Provinces through which it passed should contribute in a proportion similar to that in British Columbia. The forty-mile belt in British Columbia was intended to be used as a subsidy to the railway company and not to be retained by the Dominion Government. This arrangement was subsequently altered, and Ontario was not asked for any contribution in the way of land subsidy. Instead, a cash subvention of \$25,000,000 was granted, and the completed portions of the railway handed over to the Company. Thus, British Columbia not only gave its lands to the Dominion, but also shared in the cash contributions on a higher per capita basis than any other part of Canada, when the larger revenues accruing to the Dominion from this Province are considered.

THE CHAIRMAN: "It was understood that the railway should be built mainly out of land subsidies, and that all Provinces through which it passed should contribute in a proportion similar to that in British Columbia."





Where do you get that?

HON. MR.FARRIS: That is from the presentation at that time. That appears in this presentation.

THE CHAIRMAN: You mean in this memorandum.

HON. MR.FARRIS: In this memorandum, yes.

COMMISSIONER DAFOE: I would say it is an inaccurate statement. I do not think there is any suggestion at any time that the eastern provinces should make any direct contribution of any kind to the building of the road. It was a burden intended to be put solely on the Western provinces.

HON. MR.FARRIS: In view of the historical reasons for the construction of the road I would think that probably the sounder position would be that it would have been unfair to make an unequal contribution. But again, I am only making this suggestion as it appears in our records, and I say as far as I am advised - I did not bring that particular document, - I would have put it that way. I would say this: The Imperial communications, to which I am going to give a reference later - the views of Sir John MacDonald and the other Fathers of Confederation, show that is a national, and more particularly, imperial problem. The construction of the Canadian Pacific Railway was an absolute necessity for Canada, and that it was for that reason this road was constructed, and not because of any paltry bargain with British Columbia. That being so, the real basis of this complaint is that under those circumstances the Western provinces should be held up for the lands, and the Eastern, not; and that would have been a much sounder position than the one taken. But the complaint here is of equal force, although I do not think it is put in language that I would adopt.



With regard to the estimated expenditures and receipts in the Province of British Columbia, the Memorandum also stated:

"It should here be pointed out that the figures given in the tables of receipts and expenditures as between the Province and the Dominion are not strictly a logical basis of a claim for Better Terms, because it is a variable quantity and may not be permanent in any sense. Besides, they do not strictly affect the relations of the Province and the Dominion as such. Their principal use is in emphasizing the peculiar situation of the Province, and in demonstrating that the Province, instead of remaining a burden on the rest of Canada and as a particularly bad asset, has been contributing per capita far more than the inhabitants of the rest of Canada, and far in excess of what she has cost the Dominion. It is very difficult to analyze these statements. In them the cost of the construction of the main line of the Canadian Pacific Railway in the Province is not charged, because that railway is strictly a national undertaking and should no more be charged to the Province of British Columbia than the canals in Ontario to a similar accounting, or the Intercolonial Railway to the Maritime Provinces. On the other hand, the Province is charged with a number of items such as quarantine, militia, defence, the cost of the Indians, etc. etc., which are matters for the protection and benefit of the whole Dominion. A contra statement was made by the Dominion and submitted to Parliament, in which the Province was charged with the whole cost of the Canadian Pacific Railway in British Columbia and one-seventh of the cost of the administration of all the departments of Federal administration,



in addition to all other expenditures, of whatever nature, in this Province. This is obviously absurd and unfair, and in a very simple way this may be shown. Since 1871 the public debt has risen from \$115,500,000 to \$475,000,000 in 1911. Had the rest of the population of Canada contributed in the same proportion as British Columbia to the Federal Treasury - taking the average population over the whole period to be 5,073,845 and 152,594 respectively - instead of a total revenue of \$1,847,997,480 in forty-one years there would have been a total revenue of \$3,186,674,660.

"It may be stated in reply that there is no method of ascertaining the exact amount of the contribution in customs and inland revenue of a province to the Dominion, as imports charged to certain ports are distributed all over the Dominion. This is true of such ports as Halifax, St. John, Quebec, Montreal, and Toronto, which are ports of entry for the Dominion, but practically everything entered at British Columbia ports is consumed in the Province. A little goes to the Yukon, and latterly a small business in teas and coffee is done in the Middle West through Vancouver and Victoria, but is insignificant as compared with the whole amount of imports. Up until 1898 until the Yukon was opened up, not a dollar's worth of imports entered at our ports was re-exported. Oriental and Australian goods destined for Eastern ports are not entered at Vancouver, but shipped through in bond and pay duty at the point to which they are consigned. Therefore, we have a pretty exact method of comparing the contributions in the way of taxation



by British Columbia with - not any particular province - but the whole of the rest of Canada.

And so, when we are dealing with present-day figures the same problem confronts us. Then, so far as duty goes, goods are now taken in here <sup>which are declared at this</sup> port and are shipped elsewhere, but professor Carrothers has analyzed that, and when we come to deal with that it may be well to bear in mind what we are dealing with here, because it is shown that the position has been continuous, and at a time when we are able to prove that practically all goods coming through the Vancouver port were consumed in British Columbia.

"British Columbia stands almost as a unit on the Pacific Coast, and any small export from the Province of imported goods is far more than offset by imports of goods from the Eastern provinces which have previously paid duty there; but as has been stated, however, the whole matter of receipts and expenditures is mainly useful as demonstrating the disadvantageous position of the Province as compared with other provinces, and demonstrating how thoroughly the original impression as to British Columbia's place in Confederation has been dissipated by actual facts."

It has been stated by J.A. Maxwell in his study of "Federal Subsidies to the Provincial Governments in Canada" that:

"The unwarranted assumption was made that receipts from customs at the ports of entry in the province represented contributions by the people of British Columbia to the revenue of the Dominion. But it was certain that a large portion of various articles on which a duty was paid - notably sugar, tobacco, spirits, and wines - did not remain in the province for consumption, and that, therefore,





the duties collected upon them did not bear upon the people of British Columbia."

A study of the trade of British Columbia would indicate that conditions were such that only a comparatively small part of these goods would have been shipped outside British Columbia."

What we say here will have to be supplemented with what is discussed later, when present-day figures are being presented.

"The disabilities of British Columbia were again urged at a Conference on Taxation held in Ottawa in 1924. In the interval the costs associated with the participation of Canada in the Great War had placed new financial burdens on the Dominion Government. This was recognized by the British Columbia delegation, but it was pointed out that, apart from the consequence of the war, "as a logical result of natural development, radical changes in the commercial and industrial life of the country have taken place. Consequently, the revenue arrangements, devised to meet the relatively simple business conditions prevailing at the time of Confederation, are found, after sixty years, to be in need of revision to conform with the requirements of modern times".

"Particular stress was laid upon the invasion of the field of direct taxation by the Dominion Government in imposing income taxes and other direct taxes on banks, loan, trust, and insurance companies, which had previously been regarded, by common consent, as the exclusive domain of Provincial taxation. Although it was freely admitted that in this respect the constitutional powers of the Dominion are



unlimited, it was felt that this power, inasmuch as it drains the source of Provincial revenue, should be used with due restraint and only during the period of an emergency".

In 1927 a further claim was made by British Columbia for readjustment of the Terms of Union. It was then stated:

"In presenting the case of British Columbia for adjustment of the Terms of Union relating to subsidies, it will be readily seen that a grave injustice was committed through the misconception and lack of knowledge of the vast potentialities and strategic importance of this province to the scheme of Confederation.

"From time to time claims for adjustment have been brought to the attention of the Federal Government, but only temporary relief has been given. Our disabilities, however, are of a permanent character and can never be overcome under existing subsidy arrangements, unless such payments are progressive, increasing in ratio to growth as added responsibilities accrue. In assimilating the ideas of the framers of confederation conveyed through the debates at the time, there was evident a paramount feeling of paternal supervision permeating the minds of the Central Government. The conception of the subsidy idea gave no elasticity to the redistribution of surrendered receipts to meet the constantly growing requirements.

"The system should, therefore, be revised to measure up to the standard by which the term 'subsidy' should be 'the complex of those objects which in a given economic area and in a given economic system have as their normal purpose the



facilitation of economic intercourse (or transfer of values) between economic units, the tangible embodiment of the exchange value of one object in terms of another, as requirements warrant and as the resources of the whole units combined will permit, having regard for the services to be rendered by each'. In order to do so, a re-adjustment of the whole Provincial fiscal system and their relations to the Federal system would be necessary by clearly defined modes of raising revenue, each Province to determine the method of taxation that would bring about the greatest benefits to its economic development and progress radiating around the Central Government without confusion or overlapping. It is, therefore, suggested that the subsidy system be now adjusted as between the different Provinces, as a nucleus of an interchange of values for the surrendering of the greatest source of our national revenue receipts, that of Customs and Excise, to the Federal Government."

Further representations were made in 1934 to the Dominion Government by British Columbia with a view to securing an impartial examination of the position of British Columbia in the Canadian Confederation. In a brief supporting this request the unequal position of British Columbia in the Confederation was pointed out. The disparity between the actual subsidies paid and the revenue from the Dominion customs and excise taxes which these subsidies were supposed to replace was emphasized. The Dominion Government was reminded of the agreement to appoint a Commission in 1913 which had fallen into abeyance during the War and



which had not been revived. The loss to the Province through the original financial agreement was pointed out, also the inequality of the treatment of British Columbia in the matter of debt allowance as compared with the Prairie Provinces. Attention was drawn to the special treatment of Manitoba, Alberta, and Saskatchewan in the manner of return of public lands as compared with British Columbia."

That complaint was that the Commission there was given authority to estimate the loss of revenue from these lands while in possession of the Dominion. In the **Martin** Commission, dealing with the lands of British Columbia, no such power was given, and, of course, no such matter was dealt with in the report.

"The annual subsidy of \$100,000 granted to British Columbia in 1871 as compensation for lands conveyed was merely a financial device to give a plausible excuse for making a special grant to British Columbia, which was considered necessary even by the Dominion Government at that time for the proper functioning of the Provincial Government. This is another instance of the results of the policy of the Dominion Government in applying methods of financial adjustment which had been necessary compromises at the time of the original Confederation but which later only served to confuse the real issues and real necessities of the Western Provinces. These early compromises were elevated and transformed into principles, and this camouflage has been continued even in the more recent adjustments, and the failure to recognize the real needs of British Columbia has continued".

**THE CHAIRMAN:** Senator, can you tell us whether it was as a result of the request of 1934 or the request of





1935 that the interim subsidy of \$750,000 was granted?

HON. MR. FARRIS: As I understand it, as those representations were pressed during these years they included a request for a Commission which would not finally - final, in the sense of for the time being - make an adjustment of what was fair under those circumstances. My understanding is that the Prime Minister of Canada at that time acknowledged the grievances that British Columbia had, and he said: "We will allow \$750,000 a year until such time as a Commission will fix the amount with more definiteness".

THE CHAIRMAN: My impression - and I want to see if it is correct - is that the memorandum the Government filed in 1935 for better terms, was filed after, and as a justification for the action of the Government in granting the \$750,000. In other words, it was putting in writing the verbal representations which were made to the Government of the day.

HON. MR. PATTULLO: Your Lordship, the representations that were made as a result of which this \$750,000 was granted, was made before the Bennett Government. That would probably be 1934. A special delegation from British Columbia attended there, and the Attorney-General made a representation before the cabinet, of which The Right Honorable Mr. Bennett was the head. As a result of that, without any request from us, more than a general presentation, Mr. Bennett then granted to this Province an annual interim payment of \$750,000. I have the correspondence if the Commission would care to see it.

THE CHAIRMAN: I think we would be glad to see it, Mr. Pattullo.

HON. MR. PATTULLO: I will get copies for you, sir.

HON. MR. FARRIS: I take it that was all you wished



on that, Mr. Chairman, at the Present?

THE CHAIRMAN: Yes.

HON. MR. FARRIS: I will continue reading:

"Representations were again made to the Dominion Government in 1935, and a Memorandum respecting the claims of British Columbia for better terms was prepared in further support of the request for an independent investigation of the position of the Province. The request was still further pressed in 1936 and the unequal position of British Columbia in the Confederation was again emphasized in a Memorandum stating the Province's claim for re-adjustment of the Terms of Union. British Columbia was not granted a separate enquiry but was assured that any statement of the Province's case for special consideration would be heard by this Royal Commission."

I think that is as far as I need read on those representations. Coming back to the brief, on page 7:

Detailed consideration of reasons for re-adjustment for British Columbia:

The force of the claims made during the past forty years is strengthened by an examination of the present condition of the Province, its relation to the Dominion, and by a comparison with the other provinces.

It is proposed now to return to the six reasons heretofore enumerated on pages 5 and 6, and deal with them in detail".

On page 5 we say this:

"It is submitted that British Columbia has a special case for the consideration of the Commission which stands outside the general claims of other



provinces and which entitles her individually to have a readjustment with the Dominion.

One: "The grant allowances from the Dominion are inadequate in relation to the present cost of the administration of government in the Province.

In dealing with this problem, consideration must be given to the cost of municipal government. The division between the Provincial Government and the municipalities of the taxing powers given to the Province under the British North America Act is wholly a provincial problem, and it cannot be ignored in an analysis of the provincial tax structure or in estimating the total provincial annual expenditures. The burden of the apportionment of governmental administrative duties and the division of taxing powers between the Provincial Government and the municipalities must be assumed by the Province. It is the same people who pay taxes to the Province and to the municipalities. The duties imposed on the municipalities are divided into two classes: (a) Powers given which they may voluntarily assume. (b) Obligations which are directly imposed on them by the Legislature.

(a) Powers conferred are set forth in Part V., pages 205 and 207. While these powers are voluntary, they are in substance compulsory as of necessity.

(b) Obligations imposed are set forth beginning at page 205 of Part V. It will be seen that all powers and obligations in both classes are essentially part of the provincial administration of government, and the sources of taxation are part of those conferred on the Province by the British North America Act.



The details of the forms of municipal taxation are set forth in Part V., beginning at page 213. It is to be noted that over 90 per cent of the revenue raised comes from levies on land and improvements. At page 220 is set forth the cost of social services."

I think perhaps the Commission might wish to take a cursory glance at these provisions that are given here. Let us go back to the powers that are termed "voluntary", on pages 205 and 207. On page 205 you will see at a glance the acts that are outlined, which deal with the municipal problems, and the burdens in whole or in part are on the municipality.

THE CHAIRMAN: Do the municipalities in British Columbia administer the Liquor Control Act?

HON. MR. FARRIS: No, the Liquor Control Act is administered in British Columbia by the Province. The municipalities are given a certain portion out of the Liquor Control Act revenue.

THE CHAIRMAN: "Certain compulsory duties are imposed by provincial statute upon the municipalities". I was wondering what duties were imposed?

HON. MR. FARRIS: The duty would be the general duties of enforcing - police work in the city, - the enforcement of law. There has been at times in the past some support to the municipalities by the provincial police, but speaking generally the enforcement of the Liquor Act in the municipalities is the primary responsibility of the police of the municipality.

THE CHAIRMAN: Just so one will understand it a little better, what duties are imposed by the "Municipalities Incorporation Villages Act". It does not help one much to have the mention of the Act unless the name of it is self-explanatory, such as the "Mothers' Pensions Act".





HON. MR.FARRIS: Mr.Chairman, at a later date I am going to detail a little more the financial question. What I am submitting now is simply a preliminary proposition. It is well known anyway, but to keep the continuity of argument one mentions those things, and what I am submitting now is this proposition: That those are all essential duties and the services of Government in the province, and therefore it is logical and proper that when we compare figures of cost of government in the province today compared with 1870, for instance, that it is not enough to merely take what appears in the budget of the legislature, - of the Finance Minister, but that must be supplemented by the budgets of the Municipalities carrying out functions just as much provincial in their constitutional aspects as those administered by the legislature of the province.

THE CHAIRMAN: That is quite true.

HON. MR.FARRIS: Dr. Carrothers has called my attention to what might be taken at a glance now, on page 262, in appendix, "B", in which this is set out: "The voluntary powers of the city and district municipalities," and it runs over to page 270.

To answer your last question, Mr.Chairman, appendix "C", at page 268, deals with the Voluntary Powers of the Village Municipalities.

THE CHAIRMAN: Your proposition is a perfectly sound one, taking into consideration the obligations the province is discharging. You must include the municipalities in order to get at the burden of administration.

HON. MR.FARRIS: Yes. And in many cases they are divided. Some of the burden is carried by the municipalities and some by the province. And in addition to that,



there are changes in policy of the same government, or different governments, and responsibilities are at some time put on the municipalities and in some cases incurred by the province, -and sometimes passed back to the province . It is a question of interior organization as to how the burden is carried. But the division of powers in 91 and 92 is only between the Dominion and the province; the municipality as such is not known in those constitutional divisions. That is a special provision created by the province itself, and is merely a detail of how they administer the services that are imposed upon them under the B.N.A. Act. Of necessity, all those items must be included when we are making a comparison. That is as far as my proposition will go at the moment.

Another qualification that I make on page 8 of my brief:

"In the comparisons to be made it is to be noted that the figures of municipal expenditure of 1872 are 'estimated'. There are no actual figures available. At that date Vancouver did not exist and New Westminster and Victoria were the organized municipalities. No borrowing powers were granted them, and no mandatory duties were placed on them. Consequently, it is believed their expenditures would not be 25 per cent of the provincial expenditures."

For the purpose of getting some kind of approximation 25% is assumed. Then I give for your consideration those figures, based on the proposition we are dealing with; that is, that the grants are not at all in proportion to the services that now have to be assumed.

In 1872.	The Provincial Annual Expenditure	\$604,369
	Estimated Municipal Expenditure	<u>151,092</u>
		755,461
1872	Federal Grants to British Columbia	214,000
	The grants were nearly 30 per cent of the expenditure.	



1935-36	Provincial Expenditures	\$23,243,000
	Municipal Expenditures	<u>28,442,000</u>
		51,685,000
1935-36	Federal Grants	1,624,561
	The grants were only 3.1 per cent of the expenditure.	

The percentage of the grants to the expenditures has thus shrunk from nearly 30 per cent. in 1872 to about 3 per cent in 1936. It is to be noticed that the 1936 grants include the allowance of \$750,000 made by the Dominion for the first time in 1935 and which was given as a provisional additional allowance until such time as full inquiry should determine a more permanent basis of contribution. It is also to be borne in mind, as will hereafter more fully appear, that this reduced percentage in the grants has diminished as other sources of revenue have been increasingly drained by the Dominion or exhausted by the Province. The stage has now been reached when the available revenue is not sufficient to meet the expenditures.

THE CHAIRMAN: Have you anywhere in your brief a comparison of figures corresponding with the other provinces?

HON. MR. FARRIS: No, I have not got that. I think the Commission, as they go to other places, can collect those and after they are collected we would be very glad to have the benefit of that for later discussion.

HON. MR. PATTULLO: If I might interject at this point, I am not sure whether it was in conversation or by letter from the Right Honorable Mr. Bennett, which only justified the giving to British Columbia of this \$750,000. If I have it by letter I will furnish that also.

HON. MR. FARRIS: Mr. Chairman, that does, of course, suggest that our text is the special case of British Columbia. One cannot be too rigid in making the distinction



between when we are discussing a special case and when we are discussing what might be part of a general case, in common with other provinces. I mean to say, if there was a point in doing it, one might split it up so that the line would weave in and out until all the distinctions were made. I have not attempted to make it that fine in a sifting process, but I think that on the whole I have kept within the classification that I am trying to make.

THE CHAIRMAN: Like in the case of a legal argument, we should hear the whole argument, all the facts, and we have to sift out and apply it to the particular contention, those matters that are properly applicable.

HON. MR. FARRIS: I would not want it suggested to me that I am unduly leaving anything to the board to sift out, but rather to say two things: First, that there probably will be a time when the Board will have material assembled by the different provinces that one province does not have immediately available, without duplication of effort. The other answer is that there may be times when it is not material to go to the effort to clearly define just which heading your argument is under, because it is the same argument whichever heading it is under.

THE CHAIRMAN: I would think it would appear that all the provinces bear great similarity in respect to the percentage of grants to the total expenditure, - compared with the percentage which it bears, has changed enormously. I think it is true of all the provinces, and it may be a ground for a general revision perhaps more than for particular treatment of one province.

HON. MR. FARRAS: In that case, it would probably be fair for our case to be presented in this way and say you should confine your request to a general revision insofar as it varies as between this and other provinces, because of





special conditions. Only to that extent should it receive special consideration. But I do not expect that the Commission will draw a distinction as close as that.

THE CHAIRMAN: The logical result of that argument would be in the case of each province that is greater than the minimum it should have some special consideration, would it not, Senator?

HON. MR. FARRIS: I think not greater than the minimum; greater than the average.

COMMISSIONER DAFOE: Greater than the standard, what-over it might be.

HON. MR. FARRIS: I should think greater than the average.

THE CHAIRMAN: It is difficult to separate this argument from a general argument.

HON. MR. FARRIS: It had not occurred to me so particularly here, but it has that effect. It is also true, when we are talking of the general argument - it is particularly true with regard to our special argument, but I do not think the Commission should unduly worry about that, if you permit me to put it that way, for this reason: That if the position is sound, if we make our case sound, it may be necessary to use all these different items to illustrate the position of the case that we have to make. But once the case is made out it is going to be adjusted on broader lines, with more details of these broad problems. That is why I think that the details are essential in showing the figures, but when it comes to the adjustment that it will be ironed out on broader lines, and for that reason it would not be so material.

(Page 4950 follows)



"It is interesting to note that in the debates on Confederation, Sir Alexander Galt stated, referring to provincial expenditures: "If the men in power find that they are required by means of direct taxation to procure the funds necessary to administer the local affairs, for which abundant provision is made in this scheme, they will pause before they enter upon any career of extravagance."

I am citing this to show what a lack of prophecy the gentleman had.

THE CHAIRMAN: He was a poor prophet.

HON. MR. FARRIS: There is no doubt about that. But while he was a poor prophet, that does reflect the views of that time as to what was being given and how adequate it was considered as of that date.

THE CHAIRMAN: It shows in those days they valued money more than we do to-day.

HON. MR. FARRIS: Yes. Well, they thought in smaller sums of money.

THE CHAIRMAN: And people were more afraid of taxation.

HON. MR. FARRIS: I would not like to say, Mr. Chairman, that they valued money more but they thought in smaller terms.

THE CHAIRMAN: They appreciated the value of money.

HON. MR. FARRIS: That is different. I am afraid that the value of money is more in the minds of men to-day than it was at that time.

THE CHAIRMAN: I mean they appreciated the value more, not valued money more.

HON. MR. FARRIS: Yes, but what I am citing this for is not that aspect of what he said, I admit that was the purpose of his statement, but it was the incidental statement that he made that I am extracting information



from. He made incidentally, as to his predictions for the future, he made as a premise the proposition that the allowances given to the provinces are abundant provision for the schemes that are being given to them. He regarded that as a basis on which to make the prediction and it is for that reason I am giving it, to emphasize the fact that the framers of the Confederation Pact did think with the obligations that the provinces were taking over, the limited conception they had of what these obligations have developed into, that the financial scheme was really adequate to take care of it.

THE CHAIRMAN: You must also read in connection with that the view they already suggested, the view of the functions of the provinces. They envisaged the provinces exercising very much narrower functions than the provinces now exercise, and they envisaged the Dominion exercising wider functions than the Dominion could exercise under its Constitution. Undoubtedly the provinces have fought for this larger power throughout and they have got it and now find they cannot afford to carry the burden of the enlarged powers and that is one of the problems we have, to tell how they are to be dealt with.

HON. MR. FARRIS: Quite. I put it both ways in the proposition, I am saying here that the grants and obligations are out of proportion. You could put it both ways, you could say the grants are not adequate for the obligations or the obligations are too great for the grants. A development that the framers of Confederation failed to appreciate is undoubtedly just what you have said, they never appreciated for a moment the tremendous expanse of the developments of social obligations that we were going to have in this country.

THE CHAIRMAN: Or the extension of provincial powers



into fields which they thought the Dominion would exercise. However, we will not go into that.

HON. MR. FARRIS: That raises another question.

THE CHAIRMAN: Quite.

HON. MR. FARRIS: I noticed that Mr. Major in Winnipeg, I was there when he made his presentation, he did put it on that ground that the judgments of the Privy Council had in fact legislated to extend the powers of the provinces. My brief does not --

THE CHAIRMAN: Does not deal with it?

HON. MR. FARRIS: Does not deal with it. If it did -- one is sometimes a little at a disadvantage in speaking for a government of which he is not a member -- I can speak at least personally. I am not prepared to accept Mr. Major's statement to the extent to which he has pressed it, and I go by this, not on any specific instructions, but judging by the cases that this province has supported in the Privy Council having regard to the division of powers between sections 91 and 92, I would say there was a definite line of cleavage between the view taken by Manitoba and the view taken by British Columbia. But that is only a question of where to put the explanation.

THE CHAIRMAN: Quite.

HON. MR. FARRIS: It has no relation whatever to the fact that exists, it is no modification of that whether you put it on constitutional grounds or merely a development of a social consciousness in the community or both, the results are the same, and everybody must agree that the obligations of to-day under social legislation are away beyond the remotest dreams of those who framed the British North America Act.

THE CHAIRMAN: There is no doubt about that.

HON. MR. FARRIS: And that is <sup>as</sup> far as we need go in our





discussion of that. I make this comment on that observation:

"Making allowance for every extravagance which may be charged against British Columbia (which is a charge also open to the other provinces and to the Dominion), these percentages indicate how utterly inapplicable to the arrangement with British Columbia was Galt's statement as to "abundant provision." At another place he stated: "independent of the 80 cents per head which it is proposed to allow the local governments out of the general exchequer, for the purpose of meeting their local expenditures."

That is only part of a statement but he says these words:

"For the purpose of meeting their local expenditures"; showing he had the same view.

"These local expenditures include such items as the administration of justice, the support of education, grants to literary and scientific societies, hospitals, and charities, and such other matters as cannot be regarded as devolving upon the General Government."

That classification is very interesting when you come to look at our Volume 4, taking those very headings, "Administration of justice, the support of education, grants to literary and scientific societies, hospitals and charities and such other matters." Taking that group and turning to Volume 4 or Part 4, which is the social functions of government, for convenience in studying those I have made a slight analysis for reference to the pages in this page 9 of my brief. Page 162 of the main brief you will find a classification of four sub-divisions, social services, unemployment relief, education, administration of justice. And this does have something to do with this question of the Privy Council, Mr. Chairman, because it is not the Privy Council that made this classification,



it was Alexander Galt at the time of Confederation, when he made "education, grants to literary and scientific societies, administration of justice, hospitals and charities and such other matters." Now, that was the conception expressed by Sir Alexander Galt at Confederation times.

THE CHAIRMAN: Yes, and which undoubtedly would be true of any interpretation of the B. N. A. Act.

HON. MR. FARRIS: Quite, yes. Now, taking that, we take those same items, -- unemployment relief was not specifically in mind at that time, but taking those four items, education, department of justice, unemployment relief would certainly come within the general classification "hospitals and charities or such other matters." Then, they are divided up in the analysis of our brief, first, social services and there are three divisions of those services with an analysis of them at pages 85, 86 and 98 and I think it is important that we should get a glimpse of those. Social services are divided up first under general and protective. While those are minor ones, they are the formalities, they are outlined there: The Provincial Secretary's Office; public inquiries into social questions; inspection of apprenticeship; infants' act; official guardian -- these are the administration of those acts, and the total under that has increased from \$2,800 in 1876 to \$371,000 in 1936. You can see how many times they have multiplied, that rate at the end at the righthand is the increase in times, increased two times, that increased twice again, twice and a half, and that total increased three times and so on.

THE CHAIRMAN: That includes some portion of the unemployment, does it?

HON. MR. FARRIS: No, I would not say so.



THE CHAIRMAN: Aid of Youth Employment, what is that?

HON. MR. FARRIS: That does not include any unemployment. Those items, Mr. Chairman, are largely administrative items. You see, Provincial Secretary's Office; Public Inquiries into Social Questions; Inspection of Apprenticeship; Infants' Act; Official Guardian's Act." Those are all administration acts. "Factories Inspection; Mines Inspection" and so on. All those items all the way down you will find they are comparatively small items, the importance of them is not so much the totals as it is the percentages in increases from \$2,800 to \$371,000. Doctor Carrothers calls my attention to the fact that I did not catch your question entirely. The question of apprenticeship, that deals with the Aid of Youth Employment and not a question of unemployment.

THE CHAIRMAN: No, but it is under the general unemployment administration, is it? Is it part of the scheme suggested by the unemployment commission?

DR. CARROTHERS: No sir, that was used to set up an apprenticeship system in the province.

THE CHAIRMAN: Quite independent of any recommendations of the unemployment commission?

DR. CARROTHERS: Yes sir.

THE CHAIRMAN: Thank you.

HON. MR. FARRIS: Now, the second item -- we are dealing now under the heading of social services, the first was general or administration. The second heading is medical and you will find that on page 86. The following items are included under medical social services, and you can see the outline of those, and then a table that covers those on page 87. They have increased from \$22,000 in 1876 which was the earliest year we had figures of, to \$2,114,000 in 1936. That is the table at the top of page 87.



THE CHAIRMAN: What is meant by that "Resident Physicians?"

HON. MR. FARRIS: That deals with outlying districts of the province in regard to medical provision.

THE CHAIRMAN: Health services?

HON. MR. FARRIS: Health service, yes.

THE CHAIRMAN: You have not established health insurance, have you? At least, has the Act come into operation?

HON. MR. PATTULLO: Not yet. It is just there in the meantime, your Lordship, the Commission.

THE CHAIRMAN: It is like Mohammed's coffin.

HON. MR. PATTULLO: The Commission exists, an Act was actually passed but it was not put into force.

THE CHAIRMAN: Then the cost of health insurance would not form part of these items?

DR. CARROTHERS: Yes, health insurance is mentioned in the items.

HON. MR. FARRIS: That means the organization that was set up under that Act.

THE CHAIRMAN: The organization set up?

HON. MR. FARRIS: Yes, although it has not reached yet the stage when it is functioning as a health act, but the organization is there. Then, going back to our plan again, we are dealing with social services. Now, the third heading under social services is charitable. First with general and then medical and then charitable. You get that at page 98 and an outline of the general group appears at the top of the page; Welfare Branch; Destitute Poor and Sick; Burial of Indigents; Grants to Aid Societies; Provincial Home for the Aged; Old Age Pensions; Mothers' Pensions; Superannuation and so on. That has increased, Mr. Chairman, over the same period of years from \$14,000 to \$1,635,000. It increased seven times in one period and that again increased





three times, that increased three times and that total increased six times and then the final total increased nearly twice.

THE CHAIRMAN: I notice it has doubled from 1926 to 1936. What would be the particular cause of that?

HON. MR. PATTULLO: Your Lordship, it would be the very rapid increase in old age pensions and mothers' allowances.

HON. MR. FARRIS: Mothers' pensions were started before that and they have extended of course very much since that. I think mothers' pensions were started in about 1921.

HON. MR. HART: They took it off the municipalities and it would show up here.

HON. MR. FARRIS: I think mothers' pensions were brought in about 1920.

HON. MR. PATTULLO: As the Minister of Finance points out the municipalities were relieved since the present administration came in office of any payments in regard to mothers' allowance.

THE CHAIRMAN: I didn't catch that.

HON. MR. PATTULLO: I say the municipalities formerly contributed to mothers' allowances but they were relieved of that responsibility and it is now on the province.

HON. MR. FARRIS: That might cause some inconsistencies in those figures but not in the total results I don't think. But whether they are on the municipalities or not the results should be the same in the end.

THE CHAIRMAN: Except this is giving provincial expenditures and not municipal. They might vary but probably not very materially.

HON. MR. FARRIS: Yes, Mr. Chairman, It might create inaccuracies in the time when the doubling took place but take say 1906 or 1916 even, none of these services we are



now carrying on were in existence, either mothers' pensions or old age pensions. Compare 1916, that is only twenty odd years ago, \$138,000 as against \$1,635,000 to-day. Now whether the balance between the municipalities and the province is maintained or not is immaterial, but those facts are unchallenged. Super-annuation has developed, as Dr. Carrothers suggests, very much in that period, too. First we are taking social services, we have analyzed social services in the three groups, the general and administration, medical and charitable, and in each of those I have shown you the tremendous, repeated doubling and three times and four times of the cost over that period, until it has jumped up to these enormous figures. And then the next one is unemployment relief and some information is given there at table 56 page 107 and page 108. You will see that table on page 108, table 56, Mr. Chairman, in which in 1935 and '6, which is the year I have been giving in these others, the municipal expenditure was \$1,474,000 and the provincial \$7,575,000 or a total for the province of \$9,000,000. That is materially less for the next year. Now, going back only to 1920, the item for that period so far as it was known to municipal is not there, it was only \$56,000 provincial, and if we go back to the days of Confederation, 1871, I don't suppose there was an item for it.

THE CHAIRMAN: It would be the indigent, whatever the care of the poor would be.

HON. MR. FARRIS: Yes.

THE CHAIRMAN: Just a matter of curiosity, what was the basis upon which the Dominion contributed to unemployment relief in 1921 and '22?

HON. MR. HART: There was not any given by the Dominion in 1921. It started in 1930.

HON. MR. FARRIS: The Auditor General's report in 1921



and '22 shows an expenditure for unemployment in some form of \$91,000.

THE CHAIRMAN: The following year \$103,000, 1922 - 23 \$228,000.

HON. MR. FARRIS: And then it disappears. I would have thought that that must be some -- we will get that but you will notice that is at the end of the war period. It may be that had some relation to returned soldiers' problems.

THE CHAIRMAN: I was not aware that the Dominion had made a direct contribution to unemployment, as such, prior to this.

HON. MR. FARRIS: I think that is what it must be.

HON. MR. PATTULLO: I was a member of the administration at that time and I do not recall them having made any general contribution. I think there must be some special reason, probably in regard to returned soldiers, and we can get the information, Doctor.

DR. CARROTHERS: Yes, we are getting that.

HON. MR. FARRIS: I think that is all I need to say about unemployment for the purpose for which we are now using it. We are getting the picture so far as British Columbia is concerned over the years of how our social services have expanded.

Education. There is a table at 74 you might look at, found at page 142 and 3.

THE CHAIRMAN: Of course, to get even a relative basis, Senator, you would have to take the population into account in these different periods.

HON. MR. FARRIS: Yes, that is true. If our population had kept pace with these figures it would have been a very different situation.

THE CHAIRMAN: But it would be interesting if Dr. Carrothers would put opposite those figures what the result



would be on the basis of population. The population has increased very rapidly in the past few years.

HON. MR. FARRIS: The population was 35,000 in 1871. It is to-day, I think the last figure we give here was 780,000.

DR. CARROTHERS: That is at the end of '36. It is more now.

HON. MR. FARRIS: Well now, glance at these figures in regard to education, page 143, table 74. The cost was \$41,000 in '72 and \$9,000,000 in '32-'33. I don't know why the figures stop there, do you know Dr. Carrothers? -- I was a little at a loss for a moment as to why we stopped at '32 - '33 but I think we were giving them in five year intervals and at the time this was drawn the next five years had not materialized, but the figures would be all the more striking if the last ones were in.

THE CHAIRMAN: What was the per capita?

COMMISSIONER ANGUS: On the next page is that comparison, page 144.

HON. MR. FARRIS: It is practically the same.

THE CHAIRMAN: Looking at that, Senator, the per capita expenditure in 1872 and '73 was say \$40 per capita on the enrolment basis.

HON. MR. FARRIS: It will be very simple to work that out and give it to you accurately. We will work that out and give a memo of those percentages more accurately.

THE CHAIRMAN: It gives a fairer view of the increase if you take into account the increased number in attendance, because that indicates the increase in population and so on.

HON. MR. FARRIS: Yes, that is right. It depends for what purpose you are using it, Mr. Chairman. When you are comparing it to the grants, that is the increase of grants, the per capita increase is hardly --





THE CHAIRMAN: You got a subsidy on the per capita figures?

HON. MR. FARRIS: Yes, I know you get the subsidy on a per capita basis, but it produces a certain amount of money. Now, in 1871 a certain sum of money is produced on that basis and you spend so much. You go seventy years and you get a certain sum of money and you spend so much, and it is the difference in the grants and the expenditures that is really where the shoe pinches. And for that reason, for the purpose of my present argument, while the other is highly instructive, for the purpose of my present argument, that is material, particularly the variation between the money received and the expenditure in 1887 and the money received in 1936 and the expenditure in 1936. You have already had the expenditures and the receipts. Now these are itemized to different expenditures we have had to make.

Administration of justice, on page 160. That covers the analysis on these headings.

HON. MR. PATULLO: The Attorney-General's is quite an expensive department.

HON. MR. FARRIS: This was once an economical department, I am not so sure now. The totals are not given in detail as they were in the others. The principal items involved appear on page 161 at the top of the page and this note is given that a comparison of the total cost of all these services per capita of population in the province, from year to year, would show that the cost of this group of services has increased relatively less than other social services.

COMMISSIONER MacKAY: It is given in this long table at the end, is it not?

HON. MR. FARRIS: Yes.

COMMISSIONER MacKAY: Table 86, at the very bottom of that long sheet?



DR. CARROTHERS: Page 169.

THE CHAIRMAN: It seems to have run up like the others.

HON. MR. FARRIS: The total was \$59,000 in 1876, in 1936 \$1,309,000. That department has shown substantially less. Unless, Mr. Chairman, you wish further discussion at this stage on that I think that is sufficient. That emphasizes what we all knew before but what appears very vividly in that analysis.

Now, I want to read an extract from the comments of Sir Wilfrid Laurier.

THE CHAIRMAN: Reading from your brief?

HON. MR. FARRIS: Yes, at page 9. In 1907 in the House of Commons Sir Wilfrid made this statement:

"Lower Canada would not have entered confederation if as a consequence she had been obliged to resort to direct taxation to levy the revenues necessary to carry on her domestic affairs. What was true of Lower Canada was equally true of the Maritime Provinces; Nova Scotia, New Brunswick, and Prince Edward Island would not have agreed to enter into confederation if as a consequence direct taxation would have to be resorted to . . . ever since the British Provinces of North America have been granted representative government, the only mode so far as my information goes, through which they carry on their domestic affairs, municipal governments and their legislatures, has been by means of customs and excise duties; therefore it is not to be wondered at that when the Provinces represented at that conference agreed to surrender to the central government the exclusive right of taxation in way of customs and excise they should at the same time have stipulated as a condition precedent that a certain portion of the revenue that



"is collected should be returned to them, and a portion sufficient to permit them without having recourse to direct taxation to carry on their provincial affairs."

THE CHAIRMAN: That would seem to be rather inconsistent with the legislation brought before the House, that that was a final and unalterable settlement, Senator, which did not provide the provinces with all the money they required to carry on the affairs of government. I do not think you can take one extract out --

HON. MR. FARRIS: No, all I am seeking to do in this -- there are certain inferences you might draw that might be unfair, but I think this is a fair inference to draw from that, that so far as Sir Wilfrid Laurier was capable of recording, at the date he gave it, what was in the minds of the Fathers of Confederation, it emphasizes what was said by Sir Alexander Galt that it was conceived that the adjustment to be made or made at that time would be adequate to carry on these services.

THE CHAIRMAN: It is resolution No. 64:

"In consideration of the transfer to the General Parliament of the powers of taxation, an annual grant in aid of each Province shall be made, equal to 80 cents per head of the population, as established by the census of 1861, the population of Newfoundland being estimated at 130,000. Such aid shall be in full settlement of all future demands upon the General Government for local purposes, and shall be paid half-yearly in advance to each Province."

Apparently at that time it was considered that 80 cents per capita on the basis of the population should be sufficient, plus the grant for government, to meet their local needs.

HON. MR. FARRIS: That is all I am stressing, Mr.



Chairman, and it is only for that purpose I am quoting Sir Wilfrid's observations. What I am saying is, I come back to my text, my text is proposition one, the inconsistency, the growing difference between the grants of to-day and the expenditures of to-day as compared with the same in 1870. That is my first proposition and that is what I am developing now. I say that all those matters that I am bringing to bear on that question, and only on that for the moment -- I appreciate they all come in together more or less under six headings, but my first heading is the one I have just stated, and I think that Sir Wilfrid's statement -- well, in fact, I don't need Sir Wilfrid's statement, I accept the Chairman's statement just now that that was the conception at the time that the financial arrangement at that time would be sufficient to enable the provinces to carry on the obligations in regard to government.

THE CHAIRMAN: If they carried them on in the frugal manner in which it was expected they would. As Sir Alexander Galt said if they wanted to spend more money then they would resort to direct taxation.

HON. MR. FARRIS: Yes, but he also said it would not be necessary to do that, that that would be so unpopular they would not do it. As the Premier mentions, British Columbia had direct taxation from 1876 onward, has had it ever since. I do not think, Mr. Chairman, your remark "If they carried it on in a frugal manner" I do not think that means what it sounds to mean. In other words, there is no suggestion intended from the Commission that the governments of to-day should be carried on with the standard they had in their mind at that time. I am sure that was not meant.

THE CHAIRMAN: No, the whole basis on which the Commission has been appointed is that the functions of government have





so increased that a readjustment should be considered. But it also applies perhaps in an almost equal measure to the Dominion, because its functions have also so enormously increased.

HON. MR. FARRIS: Yes, but there is this difference between the Dominion and the provinces, that the provinces were given one, and one method only. The Dominion was given two things. It was given and got a system of taxation and it was given full control of banks and banking and of currency and all matters of a financial nature, where if expansion must take place, the only place it can take place. And I appreciate the very fact that the municipalities crowding the province, there may be some suggestion in the same way that the provinces crowded the Dominion, but with that very fundamental difference, that if in the last analysis it cannot go on as it is now, then there must be one of two answers, either you throw up your hands and you cannot go on or else a solution must come quick, the power lies to make it.

Now, Mr. Chairman, Doctor Carrothers has that memo and perhaps he understands it and he might give you that now.

THE CHAIRMAN: Yes.

DR. CARROTHERS: Mr. Chairman, taking the category of general and protective social services, in 1876 the ordinary was six cents per capita, in 1926 it was fifty-four cents, 1936 fifty cents per capita. Medical services fifty-two cents per capita. in 1876, \$3.14 in 1926 and \$2.81 in 1936. Charitable social services 33 cents per capita in 1876, \$2.18 in 1936. Education, \$1.12 per capita in 1876, \$4.87 in 1936. Administration of justice \$1.38 per capita in 1876, \$1.74 in 1936. Or if you take the total of all those things, the per capita expenditure in 1876 was \$3.41 and in 1936



\$12.10. In 1926 it was higher, \$15.22; in 1936 \$12.10 as compared to \$3.41 in 1876. We will have a copy of this made.

THE CHAIRMAN: I omitted this morning, when Mr. Pattullo had concluded his opening statement, to have the briefs marked as an Exhibit. Probably it would be well to have them marked now. The whole brief, that is, 1 to 7 inclusive, will be marked at Exhibit 172.

EXHIBIT NO. 172 Brief submitted by Government  
of the Province of British  
Columbia.

It is 4.30 now by my watch so we will stand adjourned until to-morrow morning at 10.30.

(The Commission adjourned at 4.30 P.M. until  
10.30 A.M., Thursday, March 17th, 1938)



ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

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REPORT OF PROCEEDINGS

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REPORTERS:

George Thompson  
John Robertson  
David Torry



VICTORIA, BRITISH COLUMBIA, MARCH 17, 1938

LIST OF REPRESENTATIONS BY THE PROVINCE OF  
BRITISH COLUMBIA

Page

HON. J. W. de B. FARRIS

4968 - 5106

-----





VICTORIA, BRITISH COLUMBIA, MARCH 17, 1938

LIST OF EXHIBITS

	<u>Page</u>
Exhibit 173: British Columbia's Claim for Readjustment of Terms of Union, 1935	4974
Exhibit 174: Martin Report on Re-conveyance of lands to British Columbia	4975
Exhibit 175: Copy of letter, Right Hon. R.B. Bennett to Hon.T.D.Pattullo, dated December 19, 1934	4987
Exhibit 176: Economic benefits to Canadians (An address by J.C. Armer, Jan. 1938)	5043B
Exhibit 177: Comparison between municipal and rural territory showing expenditures for education	5103
Exhibit 178: Comparison of per capita custom duties collections in certain provinces and all of Canada for years 1869 & 1935-36	5103

----



VICTORIA, BRITISH COLUMBIA, MARCH 17, 1938.

TOPICAL INDEX

	<u>Page.</u>
<u>FARRIS, HON. J.W. de B.</u> (Counsel for British Columbia)	
Memorandum concerning the question of overland communication at the time of B.C.'s entrance into Confederation	4968 4970
THE CHAIRMAN: The stipulation that a railroad be built on B.C.'s entrance into Confederation	4971
Records of debates and resolutions of the Legislative Council in 1870	4971
That the motive in constructing the Canadian Pacific Railway was the unification of Canada	4972
THE CHAIRMAN: Necessity of rail communication stressed by Legislative Council of 1870	4972
COMMISSIONER DAFOE: Appointment of Governor Musgrave at instance of Sir John MacDonald	4973
Martin report on re-conveyance of lands to British Columbia	4974 4975
"Act to readjust yearly subsidies to be allowed by Canada to the several provinces now included in the Dominion" (Imperial Statutes, 1884)	4975
"Act respecting Vancouver Island Railway, the Esquimalt Graving Dock and certain Railway Lands of the Province of British Columbia granted to the Dominion" (Imperial Statutes, 1884)	4976



FARRIS, HON. J.W. de B. (CONT'D.)

THE CHAIRMAN: Claims by B.C. against the Dominion in 1884	4977
Finality of settlements made in 1884	4977
THE CHAIRMAN: Questions of general relation of Dominion to provinces and of relations between Dom- inion and B.C.	4978
Distinction in principle between considering the general case of readjust- ment for all the provinces and considering the special case of B.C.	4980
THE CHAIRMAN: Consideration of British Columbia's special claims	4980
Communication received by Sir Charles Hibbert Tupper from Sir Robert Borden	4981
Inter-provincial confer- ence at Ottawa in 1906	4982
Proposed appointment of a commission to investig- ate B.C. claims in 1912	
THE CHAIRMAN: Cause of delay in appointing commission proposed in 1912	4982
Statement of Sir Wilfrid Laurier in 1907 with regard to revision of the B.N.A. Act	4983 4984
Statements of Lord Greenwood, and Mr. Winston Churchill	
Letter from the Rt. Hon. R.B. Bennett to Hon. T.D. Pattullo, December 19, 1934	4987
Federal allowances made without due consideration of the physical features of the province	4988
Principle industries of British Columbia	4988



FARRIS, J.W. de B. (CONT'D.)

Difficulty of supplying normal services to agricultural communities in B.C.	4989
Costs of Education	4989
Quotation from report of survey made in 1925 by Hon. Mr. Weir and Dr. J.H. Putman	4992
COMMISSIONER MACKAY: Comparison between cost of government in B.C. and in other provinces	4992
THE CHAIRMAN: Number of schools in rural areas	4993
Federal subsidies and allowances	4993
British Columbia's claim for readjustment of terms in 1935	4993 4994
THE CHAIRMAN: Question re the request of B.C. on entering Confederation to be allowed a fictitious population of 120,000	4995
Debt allowances	4995 4997
COMMISSIONER MACKAY: Grant of \$100,000 to B.C. set against total debt allowances computed on a basis of 120,000 of population	4997
Extracts from fiscal papers for the 4th Parliament of the Dominion of Canada	4998
Fictitious populations allowed to Prairie Provinces on entering Confederation	4999
THE CHAIRMAN: Population of Prairie Provinces in 1906	4999
COMMISSIONER DAFOE: Increase in population of Prairie Provinces after their entry into Confederation	4999 5000





FARRIS, J.W. de B. (CONT'D.)

	Comparison between B.C., Manitoba and P.E.I.	5000
THE CHAIRMAN:		
Means by which debt allowances to provin- ces determined		5001
COMMISSIONER DAFOE:		
Re Manitoba per capita charge contribution of \$2.75		5002
	Creation of the province of Manitoba	5003
	Contribution by provinces to the purchase price of Hudson Bay Co. lands	5004
	Settlement of Manitoba claims in 1885	5004
	Provisions in 1912 Dominion legislation con- cerning Manitoba	5004
	Increase in Dominion subsidy to Manitoba since 1870	5005
	Financial arrangements at the creation of the provinces of Saskatchewan and Alberta	5005
THE CHAIRMAN:		
\$4,000,000. debt all- owance to Manitoba in 1912		5006
	Debt allowances to Manitoba	5007
THE CHAIRMAN:		
Reasons for grants made to Prairie Prov- inces		5008
	Eighty cents per capita allowance to the provinces	5008
	Reason for fixing per capita allowance at 80 cents	5009
COMMISSIONER MCKAY:		
Comparison between estimated expenditures in B.C. and other provinces		
	Census	5010
COMMISSIONER DAFOE:		
Date of the commencement of the five year census		5011



FARRIS, J.W. de B. (CONT'D.)

That the basis of B.C.'s per capita income should be the same as that of the Prairie Provinces	5012
THE CHAIRMAN: Adjustment of B.C.'s per capita income as from the date of the creation of the Prairie Provinces	5012
Increase in population of Quebec and Ontario	5012
THE CHAIRMAN: Per capita special grants for Ontario and Quebec	5021
COMMISSIONER DAFOE: Question re figures showing special grants for Prairie Provinces	5021
Subsidy allowance to provincial governments 1867-1936	5022
THE CHAIRMAN: Special grants	5022
That B.C.'s contribution to Confederation is excessive	5022
Income tax	5022
Beneficial effect of fiscal policy on Ontario and Quebec	5023
COMMISSIONER MACKLY: Re centralization of protected industry in Ontario and Quebec	5023
Effect of fiscal policy on provinces other than B.C., Ontario, and Quebec	5024
B.C. compelled to buy in highest market and sell in lowest	5024
Table of comparisons showing income tax coll- ected in various provinces 1918-1919	5025
THE CHAIRMAN: Ability of residents of Quebec, Ontario and B.C. to pay in- come tax	5025



FARRIS, J.W. de B. (CONT'D.)

Income tax collected in B.C. and Manitoba	5026
COMMISSIONER D.L.FOE: That income tax has no territorial signif- icance	5026
Subsistence income	5027
THE CHAIRMAN: Dominion income tax exemption; subsistence income	5028
COMMISSIONER D.L.FOE: That the Dominion income tax is purely an individual tax	5029
Taxes collected from industry in B.C.	5029
THE CHAIRMAN: Taxation of corpor- ation incomes	5030 5031
COMMISSIONER ANGUS: Double taxation of shareholders of cor- porations	5031
THE CHAIRMAN: Dominion income tax based on income	5032
<u>PATTULLO, HON. T.D. (Premier of British Columbia)</u>	
Adverse trade balance between B.C. and Ontario and Quebec	5032
<u>FARRIS, HON. J.W. de B. (Continuing)</u>	
That income should be considered in relation to the cost of upkeep of the province	5033
Duties of Customs and Excise and Sales tax as imposed by the Dom- inion on B.C.	5035
Tax on bank notes	5037
THE CHAIRMAN: Excise duties on liquor and tobacco	5038
Incidence of the tariff in relation to commodities purchased in Canada outside the province	5039



	<u>Page.</u>
<u>FARRIS, J.W. de B. (CONT'D.)</u>	
THE CHAIRMAN: Benefit derived from the tariff by B.C. industry	5040
Protection given fruits and vegetables	5040
Continued incidence of the tariff in relation to the financial set up of the province	5041
COMMISSIONER D. FOE: Advantages of the tariff to B.C.	5041 5042
THE CHAIRMAN: That union with the U.S. would have been the probable altern- ative to Confederation for B.C.	5042 5043
"Free trade" area of Canada as compensation for losses through the tariff	5043
Tariff duty a tax and a subsidy	5043A
Effect of the tariff on the automobile industry in Canada	5043A
THE CHAIRMAN: Reference to statement made by General Motors in Regina concerning the tariff	5043B
Special benefits conferr- ed on Ontario and Quebec by the tariff	5044
British Columbia unable to avail herself of the "free trade" area of Canada	5045
Propaganda methods of the automobile industry	5045 5046
THE CHAIRMAN: Re circulars sent out by business associations	5046 5047
Butter purchased by automobile industry	5046- 5049
COMMISSIONER MACKAY: Figures on B.C. apples	5049





FARRIS, J.W. de B. (CONT'D.)

## THE CHAIRMAN:

B.C.'s Eastern market  
substantially the  
Prairie Provinces

5049

## COMMISSIONER MACKAY:

Benefit to B.C. from  
Canada's reciprocal  
trade arrangements

5050

That B.C. could secure  
more favourable reciprocal  
relationships with Great  
Britain through its pur-  
chasing power than it now  
has with Ontario and  
Quebec

5051

## COMMISSIONER DAFOE:

Proposal of New Zealand  
to admit British goods  
free of duty

5052

## THE CHAIRMAN:

Inability of Newfound-  
land to make more  
advantageous trade  
arrangements than the  
Dominion

5052

Tariff elections

5054

Federal income tax  
applied on a principle  
contrary to spirit of  
Confederation

5055

Forest resources of B.C.

5056

## THE CHAIRMAN:

Re-seeding of natural  
forest areas

5057

Exhaustion of forests

5057

## THE CHAIRMAN:

Dominion income tax  
on lumber men

5059

Vital importance of  
forest industries

5060

Classification of B.C.  
forests

5067

Douglas firs

5068

Sustained-yield capacity  
of coast timber

5069

Sustained-yield capacity  
of timber in the interior

5070

Benefits to the prov-  
ince from exploitation  
of timber resources

5073



FARRIS, HON. J.W. de P. (CONT'D.)

THE CHAIRMAN: Re timber and mining in Quebec	5074
COMMISSIONER MACKAY: Possible conserving effect of the tariff on B.C. lumber	5075
THE CHAIRMAN: Development of new industries in B.C.	5076
British Columbia the third province from the point of view of manufacturing	5077
THE CHAIRMAN: Equality in the application of the Dominion Income Tax	5078 5079
Desirability of income tax imposed by the provincial government	5080
THE CHAIRMAN: Impossibility of the Dominion's leaving the income tax field in one province without going out of it in the other provinces	5081
Necessity of a uniform Dominion income tax	5082
Nature of inequality existing between B.C. and other provinces	5083
Heavy burden of Dominion income tax on B.C.	5084
THE CHAIRMAN: Claims of Ontario and Quebec for provincial income tax	5084
COMMISSIONER MACKAY: The suggestion that the Dominion assume responsibility for unemployment relief	5085
Analysis of provincial financial position	5091
THE CHAIRMAN: Questions re deferred payments on sinking fund	5091 5092



FARRIS, HON. J.W. de B. (CONT'D.)

Sources of provincial revenue	5093
THE CHAIRMAN: Revenue from timber leases	5093
COMMISSIONER MACKAY: Land Tax	5093
School tax on land	5094
Basis of the government assessment on land	5095
Provincial debt	5095
THE CHAIRMAN: Additional revenue of \$10,000,000 shown in budget	5097
COMMISSIONER MACKAY: Amount of Dominion Sales Tax in B.C.	5097
Inclusion of sales tax in War Tax revenue	5098
Provincial income tax	5099
THE CHAIRMAN: Question re the number of income tax returns in B.C.	5100
Income tax exemptions	5101
Percentage of income tax received from individuals and from corporations; income tax received from individuals not liable to Dominion income tax	5101
Comparison between municipal and rural territory showing expenditures for education	5103
Unemployment relief	5103
THE CHAIRMAN: Re the question of better terms for B.C.	5104
Income tax the fundamental difficulty in B.C.	5104
THE CHAIRMAN: Alternative to withdrawal of the Dominion income tax	5104



FARRIS, HON. J.W. de B. (CONT'D.)

Readjustment of grants to the province	5105
THE CHAIRMAN: Re establishing equality between B.C. and other provinces	5105
Continuation of the \$750,000 annual grant to B.C.	5106





ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

VICTORIA, BRITISH COLUMBIA, MARCH 17, 1938

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Parliament Buildings, Victoria, British Columbia, on Thursday, March 17, 1938, at 10.30 a.m.

PRESENT:

HON. CHIEF JUSTICE NEWTON W. ROWELL....CHAIRMAN

DR. JOSEPH SIROIS	)	
JOHN W. DAFOE, Esq.,	)	
DR. ROBERT ALEXANDER MacKAY	)	Commissioners
PROFESSOR HENRY FORBES ANGUS	)	

Commission Counsel:

James McGregor Stewart, Esq., K.C.

Secretariat:

Adjutor Savard, Esq.,	Acting Secretary
R.M. Fowler, Esq.,	Legal Secretary
Wilfrid Eggleston, Esq.	Assistant to the Secretary

FOR THE GOVERNMENT OF BRITISH COLUMBIA:

Hon. Thomas Dufferin Pattullo, K.C., LL.D.,	Premier, President, Executive Council
Hon. G.M. Weir, B.A., M.A., D.Paed.,	Minister of Education Provincial Secretary
Hon. G.S. Wismer, K.C.,	Attorney-General
Hon. A.W. Gray,	Minister of Lands Minister, Municipal Affairs
Hon. John Hart,	Minister of Finance
Hon. K.C. MacDonald	Minister, Agriculture
Hon. F.M. MacPherson,	Minister, Public Works
Hon. J.W. deB. Farris, K.C.	Counsel
Dr. W.A. Carrothers,	Chairman of the Economic Council.



Parliament Buildings,  
Victoria, B.C.,  
March 17, 1938.

MORNING SESSION

THE CHAIRMAN: Senator Farris.

HON. MR. FARRIS: Mr. Chairman, in our discussion yesterday a question was asked by yourself, sir, in regard to the request for construction of the railway by British Columbia prior to coming into the Confederation in 1871. I have some observations I wish to make, but I have this memo which Professor Carrothers has secured from the Librarian:

" On April 24, 1868, the Honourable Amor de Cosmos moved, in the Legislative Council of British Columbia, that an address to Her Majesty on the subject of Confederation with the Dominion of Canada, the text of which he submitted, should be approved by the Council and forwarded to Great Britain. This address included a proposed set of terms and conditions upon which British Columbia would enter the Dominion of Canada. The sections dealing with the question of overland communication read as follows:

8. The Dominion of Canada to construct within three years after admission of British Columbia, a good Overland Waggon Road extending from Lake Superior, Ontario, to the head of navigation on Lower Fraser River, British Columbia, and to commence the construction of the same through the Rocky Mountains within one year after admission.
9. The Imperial Government to guarantee a Loan to construct the said Overland Road, if deemed expedient.



De Cosmos was an ardent advocate of Confederation and it is reasonable to assume that the terms and conditions proposed were as favourable to British Columbia as he considered could be secured at that time. It will be noted that they contain no reference to the construction of an overland railway although the idea of such a railway was being advocated by Alfred Waddington and others at the time.

In February 1870 a set of proposed terms of Confederation was submitted to the Legislative Council by Governor Musgrave. These terms were subsequently endorsed by the Council. The section dealing with the question of overland communication reads as follows:

8. Inasmuch as no real Union can subsist between this Colony and Canada without the speedy establishment of communication across the Rocky Mountains by Coach Road and Railway, the Dominion shall, within three years from the date of Union, construct and open for traffic such Coach Road from some point on the line of the Main Trunk Road of this Colony to Fort Garry, of similar character to the said Main Trunk Road; and shall further engage to use all means in her power to complete such Railway communication at the earliest practicable date; and that Surveys to determine the proper line for such Railway shall be at once commenced; and that a sum of not less than One Million Dollars shall be expended in every year, from and after Three years



from the date of Union, in actually constructing the initial sections of such Railway from the Seaboard of British Columbia, to connect with the Railway system of Canada.

It should be borne in mind that Governor Musgrave had been instructed to make every effort to persuade British Columbia to enter Confederation and it is surely significant that mention of the railway first appears as one of the terms proposed by him. It should be noted, further, that even in these terms, which were the official "proposed terms" forwarded to Ottawa by British Columbia, the wagon road still takes precedence as the first essential and that the railroad was simply to follow its construction as soon as practicable.

In the Terms of Union as finally adopted all mention of the wagon road has been omitted and in its stead there has been substituted a definite promise by the Dominion Government to commence within two years and complete within ten years construction of a railway connecting the seaboard of British Columbia with the existing railway lines of Canada."

Now, Mr. Chairman, as long as this question has come up, I think it should be followed a little further because, although I did not put it in my brief, there have been previous briefs from British Columbia on this question, and there is some suggestion that in the scheme of Confederation one of the rewards to British Columbia was the construction of this road, which is quite a fallacious position. The construction of this road, as I said yesterday, was essentially a national and an international, or an Imperial, question.





THE CHAIRMAN: We have not suggested that it was one of the terms. All I pointed out yesterday was that when your brief had said the stipulation was a waggon-road, I thought it was not wholly correct, because my recollection was, in accordance with the resolution you have now read, that the stipulation included the commencement of the railway. It is only to have the record correct.

HON. MR. FARRIS: I am quite aware that your Lordship did not make that suggestion, but the fact that it came up was in itself -- the suggestion that has been made has been at one stage controversial in this country, and I think there has been a substantial brief filed on this question. I have some material here that if you find it interesting I will be glad to submit.

THE CHAIRMAN: I think you should just do whatever you think desirable, Mr. Farris, and present it in any way you think most suitable, because, while we have not raised it, I do not know whether anybody else will before we are through.

HON. MR. FARRIS: I may say that I am heading now from a brief that was prepared in 1935. I will read certain extracts, and if you wish this to be filed I will be glad to file it.

THE CHAIRMAN: Senator Farris, have you records of the actual debates and resolutions of the Legislative Council in 1870? They are in the library here. If you had an extra copy of that I think it would be very interesting to have it filed.

HON. MR. FARRIS: I do not suppose there is an extra copy.

THE CHAIRMAN: Copies were printed, but I do not know if they are available. I borrowed a copy from the library here just to look at it and check it on that point,



and see what the resolution was. It is a very interesting debate on the whole situation, which was reprinted by the government here. It is the Legislative Council debate on the subject of Confederation with Canada, reprinted from the government Gazette Extraordinary of March, 1870.

HON. MR. FARRIS: What I wanted to emphasize, Mr. Chairman, was not the question of what might have been the attitude of some of the men in the legislature here, -- although that is, of course, of historical interest, -- but the fact that the real motive of the construction of this road was the unification of Canada, and the national and imperial problems that were being dealt with at that time. This little group of men which happened to be in British Columbia at that time was a mere incident in the big things that were going on. It may be, -- and it is true in the resolution that I read that the statement has been made by Governor Musgrave that if this unification is to take place you must have a railroad. But my submission is that that was not a bargain by which British Columbia was saying "you have to pay us the price of a railroad if we come in." It was rather a statement of a condition, which was the only feasible and practical way in which union could be accomplished.

THE CHAIRMAN: Quite.

HON. MR. FARRIS: Professor Carrothers suggests he was speaking probably more for the Imperial Government and the Dominion Government than speaking for British Columbia.

THE CHAIRMAN: If you look at the debates you will find, with few exceptions, the members of the Council stressed the absolute necessity of rail communication.

HON. MR. FARRIS: Well, of course, that is undeniable, because it was felt that a union between this province and eastern Canada, without communication, was a practical



impossibility.

THE CHAIRMAN: There would be no real union.

HON. MR. FARRIS: No, there would be no real union.

THE CHAIRMAN: That is perfectly correct.

HON. MR. FARRIS: The resolution, a copy of which I read, is a submission by the Governor to the Legislative Council.

THE CHAIRMAN: The Legislative Council, as I recall it, approved of it.

HON. MR. FARRIS: Yes, but it comes primarily from the Governor, who was really the mouthpiece, in that instance, I take it, of the Dominion Government or the Imperial Government. Of course, they were not part of Canada at that time.

COMMISSIONER DAFOE: At the same time, Governor Musgrave had been appointed at the instance of Sir John MacDonald, because he was known to be a friend of Confederation. That is a matter of record.

HON. MR. FARRIS: I think we are all agreed in the essentials, that the construction of this road was recognized by all those who were desirous of the union as a necessity if the Union was going to be a practical and workable one. It was not a case, Mr. Chairman, of those who were opposed to the Union sitting back and saying "We won't go in on this scheme unless you induce us with a railroad." That was not the philosophy of the thing at all; it was the contrary, that those who really wanted it and were willing to make sacrifices to get it recognized the only way that could be achieved was by having, in addition to the legal union, a physical one, which would make it a practical and workable scheme. With that accord in this matter, it may not be necessary for me to read these extracts I have here, but I am referring now to a





memorandum prepared by Mr. Pattullo, Mr. Sloane, the then Attorney-General, and Mr. Hart, of 1935. Mr. Chairman, have you a copy of that?

THE CHAIRMAN: Yes.

HON. MR. FARRIS: I will refer to pages 3, 4, and 6, -- particularly the quotations on those pages.

THE CHAIRMAN: If you would like to file it as an Exhibit, Mr. Farris, do so.

HON. MR. FARRIS: Yes, I think we had better file one of those. I might say in part of my argument later I am adopting some other parts of this brief, but I have incorporated it in mine.

THE CHAIRMAN: That will be Exhibit 173.

EXHIBIT NO: 173: British Columbia Brief.  
Claim for better terms.  
Prepared by. Hon. T.D.  
Pattullo, Hon. G.M. Sloane, Hon. J. Hart.

HON. MR. FARRIS: I also refer on this question to page 13, some observations of Mr. Justice Martin, of the Alberta Court of Appeal.

THE CHAIRMAN: Mr. Farris, have you a copy of Mr. Justice Martin's report?

HON. MR. FARRIS: I have not one on my desk, but they are available.

THE CHAIRMAN: Would it not be well to put that in too, because it deals with certain aspects of the situation.

HON. MR. FARRIS: We will have that filed at the next session.

THE CHAIRMAN: Well, here is a copy of the one in the library.

HON. MR. FARRIS: They were printed in Ottawa; you see, the return would be made to the Ottawa government, and there will be no trouble to get one.

THE CHAIRMAN: We can wire to Ottawa and have it





sent up. In the meantime, we will have this marked Exhibit 174, and when it comes up it can be put in, and formally marked.

EXHIBIT NO. 174: Martin report on  
re-conveyance of lands  
to British Columbia

HON. MR. FARRIS: Now, Mr. Chairman, the next matter I wanted to come back to was the question which was asked yesterday about the settlements of 1864, and I want generally to make some observations about those things which have become, or were said to be final and unalterable. In the first place, I have the Imperial Statutes for 1884, Chapter 4, -- the Statutes of Great Britain, the "Act to readjust the yearly subsidies to be allowed by Canada to the several provinces now included in the Dominion." I do not find anything in that that uses that language. The recital, is as follows:

" Whereas the subsidies payable under "The British North America Act, 1867," to the several Provinces thereby united into one Dominion, respectively, were readjusted and increased by the operation of the Act of the Parliament of Canada, thirty-sixth Victoria, chapter thirty, but the said increase was allowed only on and from the first day of July, one thousand eight hundred and seventy-three, and it is expedient that it should be allowed as from the day of the coming into force of the said "British North America Act, 1867," and that a proportionate increase should be made in the subsidies now payable by Canada to the Provinces of British Columbia, Manitoba and Prince Edward Island, respectively: Therefore, Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:-



Then the next Act I refer to is Chapter VI of the same volume, "An Act respecting the Vancouver Island Railway, the Esquimalt Graving Dock, and certain Railway Lands of the Province of British Columbia, granted to the Dominion."

THE CHAIRMAN: Why was there an Imperial Act on that point, Mr. Farris?

HON. MR. FARRIS: These were matters which were dealt with in the terms of Union. If your Lordship will recall the discussion in Maxwell's book, that there was in Canada, at a later date, a very strong controversy when the Dominion paid additional allowances to the province, -- modified allowances, -- that the Dominion had no right to do that except by modification of the British North America Act. There was a very heated discussion on that question, but the Parliament of the day took the view they did have that power, and, of course, that prevailed. But, I have no doubt in 1884, much closer to the original enactment of 1867, that the feeling was that this could only be done by the Imperial Parliament. The sections are alphabetical instead of by numbers. This section recites:

" Whereas negotiations between the Governments of Canada and British Columbia have been recently pending, relative to delays in the commencement and construction of the Canadian Pacific Railway, and relative to the Vancouver Island Railway, the Esquimalt Graving Dock, and certain railway lands of the Province of British Columbia:

And, whereas, for the purpose of settling all existing disputes and difficulties between the two Governments, it hath been agreed as follows: -- "

Now, "(k)" says this:

" This agreement is to be taken by the Province in full of all claims up to this date by the Province



against the Dominion, in respect of delays in the commencement and construction of the Canadian Pacific Railway, and in respect of the non-construction of the Esquimalt and Nanaimo Railway, and shall be taken by the Dominion Government in satisfaction of all claims for additional lands under the terms of Union, but shall not be binding unless and until the same shall have been ratified by the Parliament of Canada and the Legislature of British Columbia."

THE CHAIRMAN: Will you tell me, Senator, were there any other claims at that time outstanding? You say the recital says "in full of all claims", at the commencement of the agreement. It may be that those were the only claims existing at the time.

HON. MR. FARRIS: As far as I know at present those were the only claims, and it is very specific in "(k)" that whatever the recital is, that it is only these claims that are settled and disposed of by this statute.

COMMISSIONER DAFOE: The preamble says, "For the purpose of settling all existing disputes and difficulties".

THE CHAIRMAN: When that act was submitted to the Dominion Parliament, as I recall it, the then Prime Minister, Sir John MacDonald, stated that it did settle all existing disputes, -- all disputes between British Columbia and the Dominion. Now, it may be there were no other questions than the railway lands, the railway situation in issue at the time.

HON. MR. FARRIS: Now, I wish to make some additional remarks about this question, of anything of this nature being final and not open to the consideration of this board, without any restriction, because of any previous negotiations or adjustments. It seems to me you must take one of two positions: You must take a position that these





settlements which have been made are final and binding, and that therefore you will not go behind them; or else you must take the position that if you are going behind them, then the question of having been thought to be final at one stage, there can be no half-way place, -- no half-way measures about it.

THE CHAIRMAN: Senator, there are two questions we have to consider, among the many; two outstanding questions. One is the general relation of the Dominion to the provinces, which is the financial basis of Confederation. We have to re-examine it in the light of the developments of the past seventy years. Now, that involves our taking into consideration everything that has happened during the past seventy years. There is no doubt about that. And, therefore, it is open to discuss any aspect of it entirely. Then, there is the second question, that is peculiar to British Columbia, which was opened by Mr. Pattullo yesterday; namely, in order that it should be put on an equality with the other provinces certain matters should be dealt with, and their rights recognized. Now then, when that comes up, must we not consider everything that has happened in the relations between British Columbia and the Dominion, when we are considering better terms?

HON. MR. FARRIS: I say yes to that, with this qualification, you must consider it in its historical setting. You must also consider it to this extent; how far the agreement at any particular time which was satisfactory is of evidential value at this stage that it should be still satisfactory. But, I submit, sir, you cannot go further than that unless you go the whole way. That is to say, let us suppose we take some arrangement that was made, we approach it now to see whether that would be modified or not. The first consideration is, is it open for consider-





ation? Now, if it is open for consideration then the fact that it was said to be final, is wiped out. If it is not open for consideration, it means that no matter how unjust it is there is no remedy for it today except rebellion, -- and when I say that I do not want to be misquoted or misunderstood. That is advocating rebellion, but I say if this Commission should say because something was settled fifty years ago and settled wrongly, -- notwithstanding that, that it cannot be dealt with, then there is no remedy except that of repudiation of the whole relationship between the province and the Dominion.

THE CHAIRMAN: No one has suggested, Mr. Senator, that you should not go into the whole matter.

HON. MR. FARRIS: I quite understand that, Mr. Chairman, but it seems to me that we should go into it with the common understanding as to just what is to be the effect of these questions of settlement having been said to be final. The difficulty I am in is to find any basis for considering that at all unless you consider it in its entirety.

THE CHAIRMAN: We are quite prepared to have you present it in its entirety, in whatever form you think will best serve the interests of your clients, British Columbia.

HON. MR. FARRIS: Yes, Mr. Chairman, but it is one thing to say "all right, go ahead and we will listen to you", and it is quite another thing to know whether we are approaching this on the common basis, that it is open not only to be listened to, but that this board is free and is not bound by any suggestions that any settlements have been final.

THE CHAIRMAN: On that, this board has formed no opinion.



HON. MR. FARRIS: Then I think I should press this further and make these observations; that any suggestion that any of these settlements are final in regard to one province but not final in regard to the general scheme would not be a fair distinction. That is to say, if this Commission should feel that where there is a grievance common to all the provinces that there should be a readjustment, but if it is only a grievance common or peculiar to one province, why then, there is not the same reason for hearing it, I suggest that is not a position which this Commission should take.

THE CHAIRMAN: No one has suggested so far that we should take that position.

HON. MR. FARRIS: Well, I hope not. I thought, Mr. Chairman, you had said that there was a distinction in principle between considering the general case of readjustment for all the provinces and considering the special case of British Columbia.

THE CHAIRMAN: There is this, we are instructed by the terms of the Royal Commission to re-examine the financial basis of Confederation, which involves the relation of the Dominion to all the provinces. That involves a consideration of the matter from the start down to date, in the light of all the developments. We have been advised by the Government that we should consider British Columbia's special claim to consideration because British Columbia asked for the appointment of a special commission to consider it, and an interim grant of \$750,000 was made. And we have been asked to consider the whole situation. Now, must not we also consider everything that has taken place in connection with the history of the relations between the two before we can reach a conclusion whether British Columbia has not received fair treatment. Secondly, if she



has not, what the measure of compensation should be. Have we not to review everything?

HON. MR. FARRIS: I see no reason why everything should not be considered, including any statements by the province that they had considered certain settlements final, but only for its evidential value.

THE CHAIRMAN: That is all that has been suggested.

HON. MR. FARRIS: But not for its binding effect, in tying the hands of the province or the Commission in giving relief if it is felt any injustice has been done.

THE CHAIRMAN: No, I think the Commission will not feel bound by any settlement made, in the sense of a legally binding obligation. I think this Commission will approach it from the standpoint of what is fair and equitable regardless of what may have taken place in the past.

HON. MR. FARRIS: I do not think we can ask for any more than that. That clears the position which probably was beclouded only because of my doing. I may say if that observation had not been made I intended to suggest that the history of what has gone before has fully established the principle that the case of British Columbia is open for consideration, without any restrictions of the past, and I think perhaps it would save time if I give the reference in this memorandum. In the first place, at page 11; Mr. George H. Cowan, had been retained by the McBride Government to present the claim of British Columbia, and contemporaneous with that, Sir Charles Hibbert Tupper, who was then living in Vancouver, received this communication from Mr. Borden, who was then leader of the opposition:

" Let me say that I have given much thought to the conditions in British Columbia which in your opinion call for special attention in considering the financial relations between the Dominion and your





Province. You claim not only that these conditions are exceptional and peculiar to the situation and physical character of your Province, but also that they are permanent in their nature. In my opinion they are such as to demand immediate inquiry and investigation to the end that any injustices clearly established may be immediately relieved."

Now then, in 1906 Sir Wilfrid Laurier, the Prime Minister at the request of the Provincial Governments, convened an inter-provincial conference at Ottawa, which was held in October of that year. The provinces were all represented, and Sir Richard McBride was there on behalf of British Columbia, and he made representations which are set out in this memorandum and I will not bother reading this. Then on the next page this appears:

"In 1908 the British Columbia Legislature passed a resolution declaring the temporary grant of \$100,000 a year for ten years inadequate, and requested the Dominion to appoint an independent tribunal to consider British Columbia's claims. Sir Robert Borden in 1909 promised, if his party was elected, to appoint a commission. On his taking office in 1911, and being requested to fulfil that promise, he sent a telegram to the Prime Minister of the Province on the 22nd day of January, 1912, to the following effect: -

"Replying to your memorandum of the 6th of November, 1911, respecting the claims of British Columbia for exceptional treatment by reason of permanent physical conditions and otherwise, we are prepared to appoint a commission to investigate the merits of claims of your Province in this regard, one commissioner to be





appointed by this Government, one by your Government, and the other to be selected by agreement of the two commissioners; failing such agreement, by the Secretary of State for the Colonies."

And as stated by Mr. Pattullo yesterday that machinery was created, and then before the Commission was finally appointed the War came on and it was not carried out.

THE CHAIRMAN: Is there any explanation of why there was that long delay, from 1912 to 1914? It is not important, but I was just wondering why.

HON. MR. FARRIS: I do not recall that. Mr. Pattullo suggests it was probably a difficulty in selecting the third commissioner that held it up.

Now, dealing further with this question of the 1907 agreement by the conference of the provincial premiers and the Federal Government of the Imperial Statute, I refer to page 15:

"Sir Wilfrid Laurier, in moving the address for revision of the "British North America Act" in 1907 (Hansard, 1907, pages 5393-5395), recited the plan of subsidies enacted at Confederation, and various subsequent demands for increases thereof. He said:-

'The only guarantee we have is the security of the Imperial Parliament. It will always be difficult for us to go to England and get an amendment to our Constitution. Forty years have now elapsed since our constitutional charter was amended. It is true that we have been doing like the Romans, although they had the laws of the Twelve Tables which could not be altered, still managed to contravene that law by enacting other laws. We may do the same thing. But the only guarantee we have is this: that my honourable friend representing one party, and myself



representing the other party, will agree that this is to be final. Parliament will not define its own intentions, and Parliament can always do as it pleases. And the honourable gentleman knows that there is no other finality in all these matters but the will of the people, the will of Parliament itself."

Now, this is in regard to certain amendments and certain modifications that British Columbia was not agreeable to. Sir Richard McBride had left the Conference, so that there can be no element of agreement in it at all. I will continue:

"The Hon. W.S. Fielding, the Finance Minister, stated:-

'Nothing could be done which would prevent a further grant being made by the Dominion to the Provinces.'

"Following the debate in the House in 1907, the Ottawa Government then addressed the memorial to His Majesty the King, representing that it was expedient to amend the scale of payments authorized under section 118 of the 'British North America Act'; and the memorial went on to say: -

'We pray that Your Majesty may be graciously pleased to cause a measure to be placed before the Imperial Parliament at its present session, repealing the provisions of section 118 of the 'British North America Act, 1867', aforesaid, and substituting therefor the scale of payments above set forth, which shall be a final and unalterable settlement of the amounts to be paid yearly to the several Provinces of the Dominion for their local purposes and the support of their governments and legislature.'

Now, the Parliament of Canada may pass legislation which is binding, as far as it goes, but this is not legislation, this is only a petition. It cannot, by its recital, set up that there is an agreement which is final



when one of the parties has refused to be a party to the agreement, or to be bound by it.

Now, there are some quotations from the Imperial Statesmen on the next page. I might read from Lord Greenwood and Winston Churchill. Mr. Hamor Greenwood as he was then, said this:

"The Bill, he thought, was the outcome of the Conference of the nine Provincial Premiers and of communication with Sir Wilfrid Laurier, Prime Minister of the Dominion; with the exception of the Prime Minister of British Columbia, the Conference was unanimous in passing resolutions embodied in the Bill now before the House. The Prime Minister of the Province came to England to lay his case before the Secretary of State for the Colonies . . . These most difficult and complicated negotiations were conducted with sympathy and hearty good-will, with the result that the Under-Secretary for the Colonies had been enabled to bring the Bill before the House supported by all the Prime Ministers of the Dominion, the Bill containing one provision which left the way open for future terms to be made more satisfactory to the Prime Minister of British Columbia and the people whom he had the honour to serve."

The Under-Secretary of State for the Colonies, Mr. Winston Churchill, said : -

"It is only recently that an agreement has been come to by all the Provincial Prime Ministers and the Dominion Government with the exception of British Columbia, whose needs I admit frankly are different from those of the other States, and require special treatment. That special treatment was accorded to her by the agreement of the other Prime Ministers, but not in



such a degree as British Columbia would have wished. The objection of British Columbia was a very simple and a common one; it was that the special payment made was satisfactory as far as it went, but that it did not go far enough; the Prime Minister of British Columbia and others thought that the words 'final and unalterable' should not be inserted in the Bill. It is true those words were in the address of the Dominion Parliament, but they were not inserted in the Bill by the parliamentary draughtsman on the ground that they were unusual and unsuitable in an Act of Parliament.'

Then the quotation further down by Sir Robert Borden, in 1913, at the Conference:

"Speaking for himself, he saw no objection to the Provinces coming at stated intervals - say, every ten years, - to discuss and conclude any financial arrangement between Canada and the Provinces if circumstances warranted it."

So that I submit, Mr. Chairman, that the whole trend of these approaches and conferences, - discussions, and the understandings that have been arrived at, have made it clear that it has become the National policy of Canada, in the interests of Canada as a whole, to consider the claims of the Provinces, either as a whole or individually, as the occasion may arise. And it must be so, if Confederation is to work in a practical way. After all, no group of Provinces can be effectively bound together on the basis that they are legally and compulsorily bound together; there must be as a basis, first, an arrangement which is to the interest of the different provinces in order that it may be the interest of Canada. And secondly, there must be a sense of justice, a feeling





that there is justice, existing in the different provinces if harmony is to prevail, and there has to be real union.

So that my submission is that this question of what was understood to be binding in the past should be, after it has been given this consideration, forgotten and wiped out of the picture entirely, and that the further consideration of this question should be on the basis we are all here together, we are all Canadians, we are all Provinces in Confederation. The question now is, what relations shall be established in the future which are fair and equitable, in the interest of each of the provinces and in the interest of them all.

THE CHAIRMAN: That is the object of this Commission, to try and reach that.

HON. MR. FARRIS: That is so. Well, I say my submission is that the first step in attaining that is to wipe the slate clean of any suggestions that anybody's hands are tied because of anything that has happened in the past.

Now, I have taken longer than I intended, Mr. Chairman, and I am going back to my brief. While I think of it, Mr. Chairman, one other observation. The Premier has given me a copy of Mr. Bennett's letter to him, which I understand has been filed with the board.

THE CHAIRMAN: It has not been marked as an exhibit, If you like you may put it in now, Mr. Farris.

EXHIBIT NO. 175 - Copy of letter from the Right Hon. R.B. Bennett to Hon. T.D. Pattullo, Dated December 19, 1934.

HON. MR. FARRIS: I say this letter is in itself a recognition, in addition to the extracts that I have read here, of the fact that if there is anything in British Columbia's case, that it is entirely open to them.

I think we had completed our discussion last night on No. 1 of the Six reasons that I was advancing. Then, No. 2:



Two: The Federal allowances have been made without due consideration of the physical features of the Province which make the cost of government exceptionally high.

This question has been pressed on the Dominion from time to time since British Columbia joined Confederation. It has already been briefly referred to in the summary of previous representations. It is particularly in relation to highways and other public works, education, policing, and health services that the physical conditions add greatly to the cost of governmental administration.

British Columbia has an area of 366,255 square miles. It is as large in area as the United Kingdom, France, Holland, Belgium and Denmark combined. The total agricultural land in the Province is about 20,700 square miles, or about 5 per cent of the total area. The total population of the Province is estimated at 780,800 (page 59). The farm population, according to the 1931 census, was 102,367 or 14.7 per cent. A large area of the Province is mountainous.

The principal industries of the Province are lumbering, mining, fishing, agriculture and trapping and other fur production. These industries are widely scattered over the Province. In many instances agriculture arose as a subsidiary to mining or forest industries. When a mine closed or a forest area was cut over, these agricultural communities remained. The agricultural industry, as distinct from forestry and mining, tends to create permanent communities for which the full range of governmental services must be supplied.



The colonization and settlement of the Province has resulted in widely scattered agricultural communities. To supply them with normal services is a matter of great cost to the Government."

Highways: The total mileage highway system is 20,172. This includes gravelled highways, 6,536; bituminous surfaced, 843; and paved, 113 miles. The estimated cost of construction is \$89,000,000. The approximate expenditure on roads from 1871 to 1937 was \$114,000,000."

The costs of education, I will refer to the main brief, pages 142 to 146.

( Page 4991 follows )



Reading briefly at the bottom of page 142 and following:

"The present school system in British Columbia came into operation sixty-five years ago. In 1872-1873 there were twenty-five school districts with 1,028 students enrolled, at a total cost of \$41,133.50.

The steady growth of the system is shown in Table 74, this is on Page 73. This growth is shown at five-year intervals, and information is given regarding the number of school districts, the total enrolment and so on. And the table does not need any explanation from me, sir. It shows an expenditure, an average daily attendance of 575 in 1872 and 105,000 in 1932-1933, with an expenditure now of practically \$9,000,000. Then on the particular subject matter we are discussing now, the high cost of government in British Columbia in this relation, I refer you to Page 146, in which an interesting notation is given there that I will read. This is taken from a survey that was made some years ago by the present Minister of Education, the Hon. Mr. Weir, and Dr. J. H. Putman:

"Elementary school pupils are housed and taught in buildings and environment of great variety and marked contrast. Some are in modern city buildings as complete as are to be found on the American continent. Others are modest but comfortable frame buildings in small towns or amid ideal rural surroundings. Many are in remote and lonely places beside a lake, under a towering mountain capped by snow, or on an arid plateau where all vegetation is brown and dusty. Some are on beautiful but lonely islands in the Pacific, where the settler is part farmer, part fisherman, and part lumberman. Some are on steep mountain sides in 'Company Towns,' where tall chimneys of pulp-mill or smelter form the centre of a busy in-





"ustrial life. Some are close to the water on an arm of the sea, which is the outlet of a salmon river, and the site of a canning factory, and some stand on ground over coal-mines. Some have ideal surroundings, but the school buildings themselves are primitive and very small. Many are built of logs. Some are not larger than 15 x 18 feet with a ceiling just above your head. Some have attractive grounds, some have bare and unattractive yards, and some are built on rocks. In a number of them the children show unmistakable signs of Indian blood. Some of these buildings are tidy and clean inside, and some are sadly in need of paint, whitewash and soap."

The additional foot-note there points out that the date of this extract was in 1925. The school buildings have improved since this was written in 1925. I am citing this more for the sideline it gives on the problem of education in this province from the standpoint of the geography of the province, and its cost of administration. You will realize why I am giving that picture, it is very interestingly and graphically cited from other standpoints but that is the particular purpose for which I am citing it. And of course what I have said in that connection must also be considered in connection with the outline I have given in regard to the cost of government in British Columbia with relation to the farming areas.

COMMISSIONER MacKAY: Have you any figures showing the comparative cost with other provinces?

HON. MR. FARRIS: No, I have not attempted to work those out. At Page 51 of the brief, Professor Carrothers emphasizes as well the scattered areas of agriculture in this province with its attendant high cost of administration. I do not think there is any province in Canada in which the problem in regard to highways, in regard to schools, in



regard to policing and the general services that must be given the people, is comparable to the conditions we have in British Columbia.

THE CHAIRMAN: Have you any figures as to the number of schools in the rural areas as opposed to the cities and towns?

HON. MR. FARRIS: Yes, that is all analyzed here. I will give you a reference to that. I will make a note of it and see that you get the proper references to it.

- The next submission is reason three:

"In comparison with other provinces of Canada equitable treatment has not been received by British Columbia in the matter of federal subsidies and allowances."

I may say, Mr. Chairman, that in regard to this reason three I have appropriated and put into my brief substantially the case that appears in the Exhibit now filed, the Province of British Columbia's claim for readjustment of terms, 1935. The figures have been brought up to date. I suppose every lawyer thinks perhaps he could prepare a better argument than anyone else can, and it might have been, to mind, that I might have re-assembled this to suit my own ideas but I thought advisedly as this had been prepared by the government and was a document of record that it should be put as nearly as possible as it was in this document that is here. The chief reason I mention that is there will be some repetition because of the appropriation in this way and there will be some specific statements there that perhaps would not have been put in there if it was made at the time of the preparation of the brief. With that explanation and also to give full credit where it belongs, I want to proceed to read it:

"(a.) Canada shall be liable for the debt and liabilities of British Columbia existing at



"time of Union:

(b.) The population of British Columbia shall for the purpose of financial arrangements be estimated at 120,000; British Columbia, not having incurred debts equal to those of other Provinces now constituting the Dominion, shall be entitled to receive by half-yearly payments, in advance, from the General Government, interest at the rate of 5 per cent. per annum"

and so on. We have had that before. And (c.) provides for the annual grant of \$35,000 on the suggested population being estimated as aforesaid at 120,000.

"Clause (a) was accepted; Clauses (b) and (c) were rejected; the population both for estimating the debt, clause (b), and the per capita allowance clause (c), was reduced to read 60,000.

As stated above, the salient reason for assuming a population of 120,000 (approximately three times the actual number) was the fact that, on a per capita basis, the Customs and Excise revenue which was being surrendered to the Dominion amounted to \$8.25 in British Columbia, as against a per capita of only \$2.75 accruing to the Dominion from similar sources over the whole of Canada. And as the revenue requirements, per capita, from this source were thus demonstrated to be three times the normal for the whole of Canada it naturally followed that, in order to maintain the same ratio, it was necessary that the subsidy which was to replace this revenue be calculated on a population three times the actual number. In other words, the British Columbia Customs being \$330,000 was equal to \$2.75 per head on a population of 120,000, upon comparison with Canada."



THE CHAIRMAN: Can you tell us where we would find the information upon which that clause is based? I suppose it would be in those debates in the Legislature on the terms of union?

HON. MR. FARRIS: What in particular, Mr. Chairman, do you refer to?

THE CHAIRMAN: It is this, the reason why they asked for 120,000?

HON. MR. FARRIS: Yes, there will be no difficulty in giving you the reference to that.

"British Columbia was given a debt allowance on the same basis as Nova Scotia and New Brunswick -- namely, 27.77 per head of population (Terms of Union, section 2). The population assumed for British Columbia was 60,000; this gave the Province a debt allowance of \$1,666,200--27.77 by 60,000. The actual funded debt in 1871 was \$1,168,000, with floating debt \$320,000, less sinking funds \$442,380, leaving net debt \$1,045,620."

I have read the substance of what is in that paragraph in another particular and so I will slip down:

"In the year 1873, by Act, 36 Vict., chap. 30, Statutes of Canada, the per capita of 27.77 for British Columbia, Manitoba, and Prince Edward Island was raised to 32.43 per capita, which gave British Columbia an additional capital sum allowance of \$279,600. Ontario and Quebec were allowed the excess over original debt allowed in 1867, namely, \$10,506,088.84, and Nova Scotia and New Brunswick's debt allowances were increased from the per capita basis of 27.77 in 1867 to per capita basis of 32.43, similar to that of British Columbia, Prince Edward Island, and Manitoba.

In 1884 a general readjustment of debt allowances





"for all Provinces under authority of Dominion Statute, 47 Vict., chap. 4, 1884, was made. The effect of this legislation made retroactive the adjustments of 1873 granted to Ontario, Quebec, Nova Scotia, and New Brunswick to July 1st, 1867. From 1867 to 1873 Ontario and Quebec having been charged interest on the excess of debt it was decided to recoup these provinces for the deductions. This gave Ontario an annual allowance for interest on debt allowance of \$142,414.48 and Quebec \$127,460.68, which they still receive. By the same Act Nova Scotia and New Brunswick's per capita debt allowance was increased from 32.43 in 1873 to 34.82 in 1884, increasing their annual interest allowance in the case of Nova Scotia \$30,668.44 and New Brunswick \$30,225.97. Manitoba, British Columbia, and Prince Edward Island also had their debt allowance increased to bring them up to a per capita -- Manitoba, 34.22; Prince Edward Island, 51.68; and British Columbia, 34.11 -- giving them an annual increase in interest charges of \$5,541.25, \$9,148.68, and \$4,155.39 (British Columbia), respectively. The following are the only adjustments British Columbia has received on debt allowance, namely:-

1871, original allowance,	60,000 at \$27.77	\$1,666,200.00
1873 allowance	60,000 at 4.66	279,600.00
1884 allowance	49,459.4 at 1.68 (1881 Census)	83,091.00"

I will begin at the next paragraph:

" Had the proposed terms of this debt allowance been based upon 120,000 population as requested by the British Columbia delegates, upon the per capita of Nova Scotia and New Brunswick of 27.77 (the original basis of computation), British Columbia would have been entitled to a debt of \$3,332,400, against which must be deducted



"the actual debt, less sinking funds, of \$1,046,200, leaving the sum of \$2,286,200 upon which an annual interest allowance of \$114,310 instead of the \$31,000 actually received. Furthermore, if population of 120,000 instead of 60,000 had been allowed the per capita allowance for Government at 80 cents per head from 1871 to 1901 would have amounted to \$96,000 instead of \$48,000 received, making an additional per capita grant for the period of \$1,440,000. Assuming the per capita debt adjustments of 1873 and 1884 had been given British Columbia and been made applicable to a population basis of 120,000, the following would be the difference which the Provincial Assembly considered British Columbia was entitled to as terms of Confederation and which subsequent events have more than corroborated:-

Then this table is given and I don't think I need read it, Mr. Chairman. I think if the members of the Commission ran their eyes over it, it would be easier than reading it aloud. The total that is worked out on that basis is \$7,855,000.

COMMISSIONER MacKAY: What about the \$100,000 that is granted here by the Commission.

HON. MR. FARRIS: If the \$100,000 is considered actually in substitution for this, that would have to be set against these figures:

COMMISSIONER MacKAY: It practically equals it.

HON. MR. FARRIS: I would not think so.

COMMISSIONER MacKAY: Take \$100,000 over 66 years, is it not?

HON. MR. FARRIS: 66 years, yes.

COMMISSIONER MacKAY: That is \$6,600,000. So the difference then is only about \$1,285,000.

HON. MR. FARRIS: On that basis, yes. Now before proceeding further, in answer to the Chairman's question,



I have the Sessional Papers, volume 4, 1871, the fourth Session of the first parliament of the Dominion of Canada, and at Sessional Paper No. 18 -- (the book does not seem to be paged except in that way) -- there is a communication from Governor Musgrave to the Governor General, directed from Government House, British Columbia, 20th February, 1870:

"I have the honor to forward to Your Excellency a copy of the Message with which I caused the Legislative Council to be opened on the 15th instant, and of a Resolution which the Government will introduce, embodying the terms on which it is recommended that this Colony should propose to join the Dominion of Canada."

And four says this:

"It is proposed, therefore, that for the purposes of an arrangement with Canada, our population should be estimated from the amount of revenue contributed to the general fund of the Dominion, from the sources which would be transferred. On a moderate computation, the Customs and Excise Duties are estimated for this year at \$850,000. This sum is more than is raised from 120,000 of the population of Canada, the rate there being, as I am informed, \$2.75 per head. British Columbia claims accordingly to come into the Union with the privileges, as she relinquishes the revenue, of 120,000 of the population of the Dominion. This point being conceded, the rest of the financial arrangement proceeds upon the same principles which have been admitted and acted upon in the cases of the Eastern Provinces. And upon due consideration, I do not think the plan proposed will be found to be unfair."

THE CHAIRMAN: Thank you.



HON. MR. FARRIS: The Premier is not quite satisfied with my view on that. I want to discuss it with him before I press it further.

THE CHAIRMAN: We will not investigate the relations between you and your client.

HON. MR. FARRIS: They are not strained.

"Saskatchewan, with an actual population in 1901 of 91,279, was, upon entry into Confederation in 1905, allowed an assumed population of 250,000 for subsidy purposes. Alberta, with an actual population in 1901 of 73,022, was, at the same time, also allowed an assumed population of 250,000 for subsidy purposes. Manitoba, by various adjustments, has been placed on a parity with these other two Provinces.

It will be seen that these Provinces were allowed assumed populations fully three times the number actually revealed by the census, and yet this is the very proposal that was refused to British Columbia."

THE CHAIRMAN: A census was taken in these provinces in 1906 was it not? I should think the 1906 census would give us a much better idea of the actual population of those provinces than the 1901, because that was the big period of migration settlement in the West, as I recall it. If you have the figures available for 1906 we would be glad to see them.

HON. MR. FARRIS: Yes, I follow what you are stating. Of course the 1906 figures were not available at the time these provinces were formed in 1905.

COMMISSIONER DAFOE: No, but there was a very rapid expansion going on and I think it might be argued that the 250,000 was not an assumed population but was an estimate of





an actual population. I do not know from what source they got their estimate, but Saskatchewan started off with a claimed actual population of 279,000 and of course in 1911 it had about half a million and Alberta had 400,000. So there was a fairly close approximation to the assumed population at the time the provinces were created.

HON. MR. FARRIS: Yes, I will give you the figures of that after lunch, Mr. Chairman.

"Actual debt allowances of Provinces on entering Confederation, together with various adjustments and special grants that followed in later years are then set out

Then at the bottom of the page is the situation in regard to Nova Scotia and the history is given of those adjustments which we have discussed in other places and the increase in 1873 and then the adjustment in 1884, which I need not read in detail at this moment. Then at page 15 is a comparison between British Columbia, Manitoba, and Prince Edward Island:

"These three Provinces are in a peculiar position to the rest of Canada in that they entered Confederation with/a few years after the original pact of 1867. Manitoba came in in 1870, British Columbia followed in 1871, and Prince Edward Island in 1873. These three Provinces were specifically mentioned in the readjustment Act of 1884. As we have seen, Prince Edward Island, on account of its "isolated and exceptional condition, etc.," was given a debt allowance of \$50 per capita of its population as opposed to \$27.77 in the case of British Columbia and Manitoba. With subsequent changes Prince Edward Island, with the smallest population in Canada, has to date been granted a debt allowance of \$4,884,023. Manitoba, starting at the Union with a



"debt allowance of \$472,070, had it increased by subsequent Acts, culminating with an addition of over \$4,000,000 in 1912, till to-day it stands at \$7,631,684. British Columbia's total allowance stands to-day at \$2,028,891.

Following is the per capita allowance for these Provinces, based on the Dominion census of 1931.

The above figures do not represent the actual interest received annually by these three Provinces to-day, as original debts had to be deducted and the Provinces were also allowed to draw on the capital of their debt allowance. This was done from time to time. Manitoba was declared to have no debt on entering Confederation so it leaves her allowance intact, except for some small withdrawals. Prince Edward Island and British Columbia both had fairly heavy debts at the time of Union, so that the present standing of debt allowances on which these three Provinces draw interest is:-"

And the figures are given, the per capita, Manitoba .55, Prince Edward Island .44, British Columbia .04 cents.

- THE CHAIRMAN: Senator, can you explain a little more fully how those debt allowances to the provinces were arrived at?

HON. MR. FARRIS: No, I have not that information, Mr. Chairman.

THE CHAIRMAN: There must be some, I don't know what the explanation is myself, but it would be interesting to know what it is.

HON. MR. FARRIS: Probably a reference to Hansard would give the explanation; no doubt when the Bill was introduced there would be an explanation.

THE CHAIRMAN: Did it have anything to do with the



provinces not getting their lands?

HON. MR. FARRIS: That may be, but they got their lands later and they got the adjustments for that.

THE CHAIRMAN: I know, I was only trying to get at the reason for the original allowance.

HON. MR. FARRIS: There was no readjustment on that account.

"So far as debt allowance was concerned British Columbia and Manitoba entered Confederation on fairly equal terms, each with a per capita allowance of \$27.77, the one on an assumed population of 60,000, the other on an actual population of 17,000. There was this difference: that British Columbia had claimed the right to enter the Union with an assumed population of 120,000, on the ground that while the actual population was 40,000 the revenues were three times greater per head than those of the rest of Canada."

COMMISSIONER DAFOE: I think I will have to interrupt with a comment there, if you do not mind. There is an assumption there that Manitoba's per capita charge contribution was \$2.75. Of course the argument that is being made on behalf of British Columbia was made consistently also on behalf of Manitoba until such times as the railway connection between Manitoba and the East had brought Manitoba into the general economic system of Canada. In 1884 the Government of Manitoba made a representation for better terms in which they made the argument that they paid the highest per capita tax on customs and they worked out -- I don't vouch for the accuracy of the figures -- but they gave the figure for ten years and they said they were the highest in Canada, being 51 cents per capita higher than British Columbia. So that particular comparison does not



seem to be based on actual facts, but it does not of course affect your argument as against the whole of Canada, the argument still holds as against Eastern Canada.

HON. MR. FARRIS: Do you know, Mr. Dafoe, where one could get that estimate?

COMMISSIONER DAFOE: It is indicated in Chester Martin's "Natural Resources" in a foot-note which I have here somewhere. I will give you a memorandum of the reference.

HON. MR. FARRIS: Mr. Chairman, I understood your question about how these debt allowances were arrived at had reference to the new provinces coming in, Alberta and Saskatchewan?

THE CHAIRMAN: Yes, the ones with which you are making the comparison in that clause.

HON. MR. FARRIS: Yes, that is what I understood.

"It was considered only equitable therefore that British Columbia should receive subsidy in proportion to the revenue taken from the Province by the Dominion. In British Columbia's anxiety for railway connection a compromise of 60,000 assumed population was accepted.

Manitoba at Confederation, in addition to the allowance of \$472,090 in lieu of debt -- a per capita equivalent of the allowance to other Provinces -- was granted \$30,000 and 80 cents per head on estimated population of 17,000 in aid of local government. The Province was created in 1870 from a portion of Rupert's Land acquired from the Hudson's Bay Company on payment of £300,000 in addition to an extensive land grant; and in forming this Province the Dominion retained "all ungranted or waste lands &c. except as may be affected in the agreement for the surrender of





"Rupert's Land by the Hudson's Bay Company." Manitoba was purely a territorial acquisition of the Dominion, and whilst as a Province it received competent local government and had grants made to it similar to other Provinces it had no jurisdiction over its lands as had the other Provinces. To the purchase price of the Hudson's Bay lands British Columbia in common with the other Provinces subsequently contributed.

In 1882 legislation was passed by the Dominion whereby the grant in aid of local government was increased from \$30,000 to \$50,000 and the per capita allowance was based on 150,000 people -- the census population of 1881 being 62,660, and the indemnity in lieu of public lands, made at Confederation, was increased to \$45,000 a year. In 1885, as a settlement of claims made by Manitoba for better terms:

- (1) The swamp lands were returned to the Province;
- (2) the University of Manitoba was endowed with 150,000 acres for its maintenance;
- (3) the indemnity for want of public lands was increased from \$45,000 to \$100,000 a year;
- (4) the annual increase of per capita allowance was to be made every two and a half years;
- (5) the debt allowance was increased and advance of \$150,000 allowed for public buildings.

In 1912 Dominion legislation provided for: (1) Extension of boundaries of Manitoba to Hudson Bay;

- (2) interest on debt allowance being increased annually from \$178,947 to \$381,584, retroactive to 1908;
- (3) the public lands and resources were to be returned to the Dominion and in lieu the Province was to be paid, on basis of population at



"each quinquennial census, \$562,500, subject to certain deductions for lands retroactive, this amount to be retroactive to 1908 and to increase with increase of population -- this, with interest, made an adjustment in 1912 of \$2,193,357.31; (4) allowance to assist in providing for construction of public buildings of \$201,723.57 was made, bringing total payment to Manitoba for Government buildings of \$468,750.

With the various adjustments and increases, special grants, the original subsidy of \$47,987.80 paid to Manitoba in 1870 has increased to an annual payment in 1936 of \$1,716,484.18, as against \$874,561.46 for British Columbia. This last-mentioned sum does not include the interim grant of \$750,000 received in 1935, 1936 and 1937.

#### SASKATCHEWAN AND ALBERTA

Saskatchewan and Alberta were created Provinces in 1905 and the per capita grant was made subject to change every two and a half years. The annual grants for Government have increased from \$50,000 per year to \$220,000 in Saskatchewan and \$190,000 in Alberta. As the Provinces were not in debt they were to receive \$405,375 per year as interest on a debt allowance; and in lieu of lands received \$562,500 a year, with additional allowance when population exceeds 800,000. They were also given allowances of \$468,750 for public buildings, payable in five years. The school lands allotted to these Provinces have provided \$10,364,483 to Saskatchewan and \$6,724,070 to Alberta.

#### FOUR WESTERN PROVINCES.

The four Provinces of Western Canada come into



"Confederation in the following order: Manitoba in 1870, British Columbia in 1871, Alberta and Saskatchewan in 1905. As previously noted, Manitoba and British Columbia started with an equal per capita debt allowance of \$27.77, though in Manitoba's case it was on actual population of 17,000 and in that of British Columbia on an assumed population of 60,000. Under the readjustment of 1873 (both Provinces still being dealt with on the old per capita basis of population), Manitoba received an increase of \$79,357 and British Columbia got \$279,600. From this time forward, however, the positions were reversed. Under the readjustment of 1884 Manitoba received an increase of \$110,825 and British Columbia was given \$83,091. In 1885 Manitoba was given a further increase of \$2,649,642; British Columbia got nothing. In 1898 Manitoba again was given an increase of \$217,026 and British Columbia got nothing; and in 1912, on the extension of her boundaries, Manitoba received another increase of \$4,052,763; British Columbia, of course not being considered."

And the table is given supporting what has just been said.

"When we turn to Alberta and Saskatchewan the matter is simple. When these Provinces were taken into Confederation in 1905, each was given a debt allowance of \$32.43 --"

THE CHAIRMAN: Just a moment, Senator, if you please.

"And in 1912 on the extension of her boundaries, Manitoba received another increase of \$4,000,000." Is that \$4,000,000 in debt allowance, do you mean, or \$4,000,000 in an actual grant or \$4,000,00 in what?

HON. MR. FARRIS: It is in debt allowance, Mr. Chairman. You see that from the table. There are six items making up a total debt allowance of \$7,631,000.



THE CHAIRMAN: Yes, that answers my question, thank you.

HON. MR. FARRIS: Referring to Alberta and Saskatchewan,

"When these Provinces were taken into Confederation in 1905, each was given a debt allowance of \$32.43 per capita on an assumed population of 250,000, the capital amounting to \$8,107,500 in each case. At this time the per capita debt allowance for each of these Provinces based on the census of 1931 stands as follows:--"

But of course we must consider that in the light of the information that has been now suggested and as far as we can give those figures I will have them.

"Manitoba's increase in 1885 was granted under the heading of "An Act for the Final Settlement of the Claims made by the Province of Manitoba on the Dominion." It added as we have seen about \$2,650,000 to the debt allowance. This final settlement was followed in 1898 by "An Act respecting the Manitoba Debt Account," which added \$267,000 more as compensation to the Province for the erection of the Legislative Buildings and Government House at Winnipeg."

THE CHAIRMAN: That is not the new buildings?

HON. MR. FARRIS:

"To this further final settlement another \$4,000,000 was added by the "Boundaries Extension Act" of 1912.

Saskatchewan and Alberta were treated liberally in 1905 and to-day draw annually an interest on debt allowance of over \$400,000, Manitoba would have the same but for withdrawals that bring it down to about \$380,000, whilst British Columbia





"received about \$29,000. This an anomaly that should be corrected."

THE CHAIRMAN: That \$4,000,00 added by the "Boundaries Extension Act" of 1912, I suppose the record would be in the discussion in Parliament somewhere. There must have been some special reason due to the taking over of the territory, I suppose, for that allowance being made. I do not know what it was. You see, Senator, it is not possible for the Commission to form an opinion as to whether you have been unfairly or unequally treated unless we know the reason for these particular grants. It is obvious you have not received the same grants but one would have to know the reason for these particular grants.

HON. MR. FARRIS: We will furnish you with that, sir. "Total interest on debt allowance", it shows on the basis of the per capita by the 1931 census and I won't read that because I want to have that considered in the light of the 1906 census. The next is the 80 cents per capita allowance:

"The purpose in allowing this particular grant has already been indicated by previous references to Confederation debates, and is presumed, in view of the surrender of Customs and Excise duties, to augment sufficiently the limited revenues remaining at the disposal of the Provinces to enable them to carry on such services as "the administration of justice, the support of education, grants to literary and scientific societies, hospitals and charities, and such other matters as cannot be regarded as devolving upon the General Government."

This conception is emphasized by the statement of Sir Wilfrid Laurier in 1907, after reviewing the compromise financial arrangements of Confederation



"in reference to Lower Canada and the Maritime Provinces, in which he says"

Now, I have already read that yesterday.

"In the case of British Columbia, owing to the insufficiency of this compensation, it was necessary at the very outset to provide other means of financing the Provincial undertakings mentioned. This Province had scarcely been in Confederation five years before direct taxes on income, personal property, real property, and wild land had to be levied in order to enable the Government to carry on, and it has been in this field of taxation ever since. Otherwise British Columbia never could have undertaken the conduct and development of these services throughout the vast expanse of its rugged and scattered territory.

It was with a full knowledge of local conditions, and with a view to making provision for the nature and extent of these requirements, that this Province stipulated a per capita allowance based on a population of 120,000.

Reason for fixing per capita allowance at 80¢.

The sum of \$264,000 was required by Nova Scotia, in addition to her territorial revenues of \$107,000 to provide for immediate local requirements; this sum works out at about 80¢. per head. New Brunswick, who could not manage on this basis, proposed to cut down local expenditures from an estimate of \$404,000 to \$353,000 and to make a further reduction of \$63,000 within ten years, but for each of the first ten years she was to receive a special grant of \$63,000 to balance her accounts"

And then they are totalled up from 1871 to 1936. The total per capita grant received, \$13,000,000, as against a cost



of \$185,000,000, adverse balance \$171,000,000. The cost of provincial share of unemployment relief \$30,000,000; making a total of \$201,000,000.

Those figures I have just given, Mr. Chairman, I suppose, might also appropriately fit in with the figures I gave in the first of my six reasons.

COMMISSIONER MacKAY: Any other Province could make up a somewhat similar account could it not, if it based its estimates solely on the 80 cents per head? You have not tried working it out with the other provinces on a comparative basis, have you?

HON. MR. FARRIS: No, I would not expect they would be as pronounced in the other provinces.

COMMISSIONER MacKAY: No, they might not be as pronounced but the total would be pretty large.

HON. MR. FARRIS: I have no doubt of that, Dr. MacKay.

#### CENSUS

"The fact that this allowance is determined on the decennial basis of population, although apparently not unfavourably regarded by the Eastern Provinces, works to the serious disadvantage of British Columbia. With the advent of the railway the population increased to an abnormal extent, yet this was not reflected in the subsidy for several years. To illustrate the point, in 1911 the decennial census fixed the population, upon which the subsidy for the ensuing ten years was based, at 391,000. In 1914 a conservative estimate showed it to be approximately 450,000, while the census in 1921 disclosed the actual population as 524,000. Yet, for subsidy purposes, the population over this whole ten-year period was presumed to be only 391,000. The loss thus sustained by the



"Province is, therefore, quite evident, since the heavy expenses occasioned by the incoming population was necessarily incurred many years in advance of the increase in the per capita grant.

It will readily be conceded that the Western Provinces have shown, and will continue to show, a more rapid proportionate increase in population than the Eastern Provinces. For instance, in the sixty years ended in 1931 the population over the whole of Canada has increased 181.27 per cent., whereas in British Columbia the corresponding increase has been 1,815.37 per cent. In the case of Manitoba, Saskatchewan, and Alberta, this factor was recognized in the arrangement for determining the per capita grant, whereby an actual census is taken every five years, upon which an estimated census is based every two and a half years, and the allowance is readjusted accordingly. Some idea of the extent to which British Columbia has suffered by reason of this obvious inequality will be gathered from the following statement"

And this statement is a table showing the different allowances per head of population, the actual receipts, and then a special analysis if payment had been received on the basis of the other western provinces, which shows a discrimination against what had actually been received and what should have been received of \$2,000,000.

COMMISSIONER DAFOE: Why is the date at which this arrangement was begun and commenced in 1891? Is there any special reason? I think the five year census dated from about 1905, but I may be wrong in that. If it dated from 1891 of course the reason would be clear.

HON. MR. FARRIS: I don't know, Mr. Dafoe, why that





analysis is.

"British Columbia, therefore, claims that the basis of arriving at her per capita allowance should be the same as is in effect in the case of the three Prairie Provinces, and that, having regard to the many disadvantages under which this Province has laboured in the past, the readjustment should be made effective as from 1891."

THE CHAIRMAN: The exact point of this particular phase of the matter would be met if the adjustment were made as of the date those provinces were created, would it not?

HON. MR. FARRIS: It would be met as far as those figures are concerned.

THE CHAIRMAN: Yes, as far as equality of treatment is concerned.

HON. MR. FARRIS: Yes, but on the other hand I suppose the argument might be fairly made then that if that was a fair thing to do for those provinces in 1905, it was an equally fair thing to do for British Columbia for the period during which the same condition existed in British Columbia.

THE CHAIRMAN: Of course then you come to this: There has been a rapid increase in population in both Ontario and Quebec during these past twenty years. I can understand the argument that you should be put on the same basis as the two Western provinces since they came into Confederation, but I do not know what the increase has been, there certainly has been a marked increase in Ontario and Quebec population too.

HON. MR. FARRIS: I agree, Mr. Chairman, that pressing the argument as against Ontario and Quebec from British Columbia's standing alone that is an answer, to



the extent that the figures will support it. I have not the figures.

THE CHAIRMAN: I have no idea what the figures are.

HON. MR. FARRIS: I mean, you would have to take the bitter with the sweet and if the figures would work out that way, the only basis on which British Columbia can support this argument, prior to 1905, is on the ground of comparison with the Eastern provinces, and of course that would have to be a comparison over the full period of the seventy years. I quite concede that. And apart from that I accept the position you have stated that so far as the Western provinces are concerned, and if it is to be conditioned on a comparison with them, the logic of it is to confine it to the period in which they have been in existence.

(Page 5021 follows)



"Not only in debt allowance, but in special grants to provinces, British Columbia has suffered in comparison with others, as the following figures, based on the 1931 census, show:--"

This table shows the per capita special grants, and Prince Edward Island received \$67.46, Nova Scotia, \$17.80, New Brunswick, \$37.92, Manitoba, \$30.02, Saskatchewan, \$20.10, Alberta, \$22.17, British Columbia, \$12.96.

THE CHAIRMAN: What would Ontario and Quebec show on the same basis, do you know?

HON. MR. FARRIS: I cannot give you that, off hand. When I come to one of the other headings--we are putting the position of British Columbia in comparison with the other provinces on one basis and with Ontario and Quebec on another basis. We justify that by reasons which are given in the presentation of the Brief. I think that would apply equally to this; you might leave that for the moment until it comes up in the ordinary course of events.

COMMISSIONER DAFOE: Do those figures showing the special grants for Manitoba, Saskatchewan and Alberta, include the awards made under the commissions which were appointed to decide whether cash payments should be made in settlement for the lands alienated?

HON. MR. FARRIS: I do not know, but I presume they do. My memory does not serve me on that score.

COMMISSIONER DAFOE: The grants for Saskatchewan and Alberta have never been taken up by those provinces.

HON. MR. FARRIS: I will make a note of that and see.

THE CHAIRMAN: The explanation of the question which I asked, Senator Farris, is found in the next table; there



were no special grants to Ontario and Quebec as the next table shows.

HON. MR. FARRIS: "Subsidy allowance to provincial governments, July 1, 1867, to March 1, 1936." This is shown in a table at the bottom of page 21 in the Brief of Argument submitted by the province.

THE CHAIRMAN: In that connection, I see you have in the third column, special grants.

HON. MR. FARRIS: Yes, but that does not change what I have said, Mr. Chairman.

THE CHAIRMAN: I am only saying that it is an answer to my question.

HON. MR. FARRIS: In regard to the whole basis of our comparisons, I have formulated my argument to make a certain basis of comparison with the provinces other than Ontario and Quebec. I give the reasons for this at a later date. I will continue to read item four at the bottom of page 21 of our Brief of Argument:--

" Four: The contribution which British Columbia is making to the Confederation is excessive:--

Either in comparison with the grants which she receives from the Dominion; or in comparison with the contributions of other provinces.

The following contributions are particularly referred to:--

#### A. Income Tax

For the purposes of the discussion it is proposed to classify the provinces of Canada into three groups:--  
First: Ontario and Quebec. These two central provin-





"ces are in a position distinct from the other provinces. The fiscal policy of Canada has been designed to protect and build up the secondary industries. The result of this policy has been to centralize the protected industries in Ontario and Quebec. It has also centralized there most of the large corporations doing business across Canada."

COMMISSIONER MacKAY: With regard to that point, Senator Farris, do you think it is a fair statement of the case to say that the result of this policy has been to centralize protected industry in Ontario and Quebec? If it has been the result of the tariff policies--if there had been no tariff policy there might not have been as much industry in Ontario and Quebec, but would there have been any more industry in British Columbia or any other part of Canada?

HON. MR. FARRIS: So far as British Columbia is concerned, what we say our position is, is this; if there had not been a tariff policy, there would have been more industry in British Columbia.

THE CHAIRMAN: How do you make that out, Senator Farris?

HON. MR. FARRIS: I make that out in my case which I am going to present. I would sooner follow my line of argument and develop it in that way. You can see what I say in this Brief of Argument, "The facts to support this classification will be given later." The first group of comparisons I make are with the provinces other than Ontario and Quebec, and to avoid the very question which the Chief Justice has asked me, I did not put in the other table. I have put in my reason to justify the comparison



only with the other provinces, then as I develop this argument I hope to be able to answer Professor MacKay's question. I continue to read:

"The result has been to increase greatly the population of these provinces and add to their incomes and purchasing power.

Second: The other provinces except British Columbia. These provinces pay tribute to the protected industries of Ontario and Quebec in increased customs duties and enhanced prices for commodities purchased in Canada. In return, however, they receive more or less compensating advantages from the home market built up by this tariff policy.

Third: British Columbia, British Columbia pays her tribute to the protected industries of Ontario and Quebec. For her, however, there is little compensation from the home market. She is compelled to buy in the highest market and sell in the lowest. The great bulk of her commodities are not sold in the so-called free trade area of Canada, but in the competitive markets of the world.

The facts to support this classification will be given later. It is set forth at this juncture in order to explain the basis of comparison to be now made. These comparisons are made with the second group of provinces only. Comparisons with Ontario and Quebec will be made on a different basis for the reasons determining their different classification."



Now, this is a table of comparisons from 1918-1919 to 1937, that is from the beginning of the Dominion Income Tax and it shows the income tax collected from British Columbia in that period as being \$74,860,000. The Dominion Income Tax collected from the three maritime provinces, Alberta and Saskatchewan during that period was, \$74,401,000. The population of British Columbia is shown as 780,000, while the population of these five provinces is shown as 2,767,000. This table shows the total Dominion grants to British Columbia as being \$16,750,000, while the total Dominion grants to the above five provinces is shown as \$99,374,000. In other words, while these five provinces received approximately \$99,000,000 with a population of 2,000,000 while British Columbia received only \$16,000,000 with a population of 780,000. In the matter of income tax, \$74,000,000. was collected from this population of 780,000, while only \$74,000,000. was collected from the other five provinces.

THE CHAIRMAN: I suppose, however, you do not question that the tax should be collected from those best able to pay it. It so happens that those who are best able to pay reside, for the most part, in Ontario, Quebec, and British Columbia.

HON. MR. FARRIS: We will discuss that as we go along. I do not concede that that is the real reason why it works out this way. I come now to the comparison between British Columbia and Manitoba. The Dominion Income Taxes collected from British Columbia total \$74,860,000., while



the Dominion income taxes collected from Manitoba were, \$56,142,000. The population of British Columbia is 780,000 and the population of Manitoba, 711,000. The total Dominion grant to British Columbia was \$16,750,000. and the total Dominion grants to Manitoba were, \$34,587,000. I continue to read at the top of page 23, of the Brief of Argument:

"It is estimated that for the fiscal year 1937-38 the Dominion income tax collections will exceed the combined income tax collections for the three Maritime provinces and the three Prairie provinces. (See Part V., page 182.)

Population, British Columbia..780,000

Population, these 6 Provinces3,500,000

Total Dominion grants to British Columbia \$16,750,000.

Total Dominion grants to above 6 provinces133,961,000.

For the period 1918-1937 the province collected  
income taxes..... \$84,380,000.00

As against the  
Dominion collection..... 74,860,000.00 "

COMMISSIONER DAFOE: I do not see that there is any grievance in the fact that more income tax is collected in British Columbia than is collected elsewhere, because income tax has no territorial significance. It is just a question of where the money is. I suppose, the point of the argument is, that in view of the large collections from British Columbia that there should be a more generous attitude towards British Columbia in the matter of grants.

HON. MR. FARRIS: It goes further than that, Mr. Dafoe. There are other considerations which enter into the question. Please allow me to defer that for a moment.





Continuing to read from the Brief of Argument:

"For the past fiscal year and the present one the Dominion collections in British Columbia exceed those of the province. (See Part V., page 186.)

In making these comparisons between British Columbia and other provinces, it may be suggested that the total income of its citizens should be considered in relation to the total income of the citizens of the other provinces."

I take it, that explains one of the very questions which the members of this commission have just put to me. Continuing:

First: It is the total income which should be considered and not merely that which is taxable. For instance, there is subsistence income. The character of the industry of British Columbia would indicate that it is unlikely that subsistence income is as high in British Columbia as in other provinces. This would be due, in the main, to the situation in the forestry and mining industries, where a large number of men are employed under conditions where the production of subsistence income is impossible. It would be natural to suppose that the largest sum of subsistence income would be obtained in those provinces in which agriculture assumes greater importance. The census figures for 1931 show the farm population of British Columbia as only 14.7 per cent of the total population, compared with Saskatchewan, 61.2 per cent, and Prince Edward Island, 63 per cent. (See Part III., Table 41, page 74.)"

Now, I cannot see any difference in principle why people living in comfort and in reasonable enjoyment of all



the benefits of life, and this is so in farming communities to a greater extent than other places--why the question should be put as it has been put, "You have no right to kick because the money passed through your hands."

THE CHAIRMAN: Senator Farris, the Dominion Income Tax exemption is around \$2,000 for a married man and \$1,000 for a single man, is it not?

HON. MR. PATTULLO: The Dominion exemption is \$2,000, for a married man, I think.

THE CHAIRMAN: The Dominion exemption is \$2,000, for a married man and \$1,000 for a single man. If you took a subsistence income, I think that would exempt most of the agriculturists in the different provinces.

HON. MR. FARRIS: Undoubtedly, they are exempted.

THE CHAIRMAN: I mean, if you had to value that subsistence income on the basis of income taxes, they would not fall within it, they would be exempted from it. The amount of the subsistence income would not equal the amount of the exemption. Income in this province, and it is true of Ontario and Quebec where there is a large industrial population, is not subjected to the tax, either. I know the point you are pressing and it has been pressed with reference to Ontario and Quebec as well. Having regard to the exemption granted by the Dominion, it appears to me that very few agriculturists enjoy a subsistence income which would come within the provisions of the income tax act. I do not think these people would be required to pay income tax even if they were compelled to value their subsistence income.



HON. MR. FARRIS: That may be, Mr. Chairman, if the argument was directed to the question of a change in the federal law so as to enable the collection of income taxes from those persons, but that is not the basis of my argument. My argument is directed to the question as to whether or not, in comparison with these other provinces, it is a fair thing to take from British Columbia as much as from all the other six provinces put together, that is the question.

THE CHAIRMAN: It is simply because the people of British Columbia are earning more than those in the other provinces.

HON. MR. FARRIS: I am not sure whether that is so in this case.

COMMISSIONER DAFOE: If you were levying an income tax to tax a province on a percentage basis, that would be an argument, but the Dominion income tax is purely individual, except where it applies to corporations. If you have the money, you are stuck for it, that is all. Income tax, when you have the money to pay for it, is not a hardship.

HON. MR. FARRIS: Let me leave this for a moment and direct your attention to the second item on page 23 of the Brief of Argument where I say:

"Second: It is suggested that more money proportionately is collected from industry in British Columbia because of the fact that industrial operations are there conducted by larger groups or corporations than in the agricultural provinces. The rate of taxation is thereby affected. If, for instance, in



"Alberta farming was conducted by large corporations embracing in one group a large number of the present individual farmers, the rate of taxation would be higher. (See Part V.,page 189.)"

COMMISSIONER DAFOE: I think experience shows that where you have something analogous to this in Alberta, they make losses in comparison with very limited profits by the others.

HON. MR. FARRIS: That may be; It might be true. I am not advocating this as a practical method of farming, I advocate this as a comparison in the application of the tax, which is a very different thing. I have no doubt that the reason farming is not conducted in that manner is that it is not economically sound to conduct farming in that manner. However, I say, so far as this province is concerned it is an economically sound way to conduct certain enterprises such as pulp and various enterprises such as that, in group operation. From the standpoint of the profits, the amount of money made, in the one case the reaper cuts it down and in the other case does not touch it at all.

THE CHAIRMAN: The reaper does not touch it here if the income does not reach the amount required by law, so far as individual income is concerned, it does in corporate incomes.

HON. MR. FARRIS: If by comparison, you went into Alberta and took one thousand farmers, their combined income would amount to a tremendous sum. Now, I say, here we have a thousand industrialists working under one roof and income tax is taken out of the thousand people from British Columbia when it is not taken from the thousand





people in the other provinces.

THE CHAIRMAN: It is taken from the corporation and not the people engaged in the industry. It is taken from the shareholders of the corporation, who may reside in Canada or the United States, but so far as the individual is concerned he comes within the exempted amount. I am only raising the point to get your answer to it, because it seems to me there is a weakness in your argument.

HON. MR. FARRIS: There may be a weakness in my argument, and there might be a weakness in the opposition to it. You may say this, there must be some reason why this situation exists. It certainly is not on the assumption that the producing wealth of British Columbia is equal to the producing wealth of the other six provinces in Canada.

COMMISSIONER ANGUS: Is it not an additional point to that second paragraph that the Dominion income tax relating to corporate income really taxes that income twice. I mean to say if the shareholders live in the province, they are taxed on the income of the corporation and then also on their dividends.

HON. MR. FARRIS: Yes, that is true. In any event, Mr. Chairman, I wish the Commission and the organization which you represent would follow this matter up and find out why it is, in addition to the reasons which I have given as well as the suggestion just given by Professor Angus that the Dominion is taking from British Columbia as much as from the other six provinces put together. I suggest, sir, it cannot possibly be on the quick conclusion that, "You have got the money."



THE CHAIRMAN: Is it not obvious, Senator Farris, that it must be income of corporations or private individuals? It is based on that. Ontario may put up the same argument as you are doing and so might Quebec. Is it not obvious that the Dominion Income Tax is based upon income, and if the people who have that income reside in any part of Canada, they must pay it, regardless of the province in which they live.

HON. MR. FARRIS: There is no doubt about that.

THE CHAIRMAN: Where is there any injustice in that?

HON. MR. FARRIS: I am saying that the system puts an unjust burden upon this province by reason of the fact it takes out of the province of British Columbia more money than this province can afford to pay.

THE CHAIRMAN: That is what Ontario says, too.

HON. MR. PATTULLO: I am just going to interject, here, Ontario and Quebec also got their money from British Columbia. There is an adverse trade balance between us of almost \$50,000,000; we seem to have to keep the rest of Canada going.

HON. MR. FARRIS: It is suggested that British Columbia has the money to do this, but British Columbia has not the money.

THE CHAIRMAN: You are not suggesting that in the matter of income tax there should be an exemption of one province as compared with another?

HON. MR. FARRIS: No, I am making the suggestion now that this is an unfair burden on the province of British Columbia; it is bleeding British Columbia white. This province cannot afford to keep it up, that is what I am saying. It is no answer to say, "What is the alternative;"



The two must stand separate and distinct.

THE CHAIRMAN: There must be an alternative, Senator.

HON. MR. FARRIS: There might be an alternative, but it is not an answer to ask, "What is the alternative?". This is only one part of the question, and I want to go on with my analysis because at the end I have arranged to consider income in relation to the cost and upkeep of government. I continue to read:

"Third: Income should be considered in relation to the cost of upkeep of the province. The sum total of individual net incomes makes up the income of the province. But this does not become a provincial net income until there is deducted therefrom the cost of government in that province. It is submitted that it was recognized at Confederation that when the provinces surrendered their customs and excise duties, which were their principal source of revenue and were restricted to the field of direct taxation, it was intended that this field would be available to a province at least to the extent necessary to meet its cost of government. If this contention is correct, it follows that the Dominion's right to invade this field, if at all, is subordinate to the prior right of the province, and that not until the province has satisfied its needs from this source should the Dominion collect income tax in that province. Not only has the Dominion violated this principle in British Columbia, but it does not even permit the taxpayer to deduct his provincial income tax in computing his federal taxable income.



"The following is a quotation from the budget speech of the Honourable John Hart, 1935; on this question:--'In defining the respective fields of taxation the provinces were by the Act restricted to licenses, fees, royalties, and direct taxation, whereas the Dominion reserved to itself the right to levy by any mode of taxation; from Confédération onwards, however, a tacit understanding existed to the effect that direct taxation was the sole prerogative of Local Government. It is not surprising, therefore, that the provinces viewed with alarm the Dominion's invasion of this field in 1918 by the imposition of an income tax; at the time this tax measure was introduced, Sir Thomas White, the then Federal Minister of Finance, made the following statement in the House of Commons:--'"The Dominion Government under the provisions of the North America Act is empowered to raise revenue by any mode or form of taxation, whether direct or indirect; on the contrary, the provinces, and by consequence the municipalities which derive their taxation-power from the provinces, are confined in the raising of revenues to the measures of direct taxation. For this reason, since the outbreak of the war, I have hesitated to bring down a measure of federal income taxation, and I have not regarded it as expedient, except in case of manifest public necessity, such as I believe exists at the present time, that the Dominion should invade the field to which the provinces are solely confined for





"the raising of their revenue."

"The imposition of the Dominion income tax came as a serious blow to British Columbia, as this province had levied a like tax since 1873; repeated protests have been made at Ottawa in this connection, so far without result'.

There may be reasons for the other provinces, except Ontario and Quebec, wishing to concede the income tax to the Dominion, so that from these two populous and highly-protected provinces income may be taken for the benefit of all Canada. No such reason justifies the collection of the present disproportionate federal income tax from British Columbia, or for the Dominion taking revenue which is necessary for the governmental functions of the province."

I would like to defer further comments on these questions until I complete the picture. You will recall the subject we are now discussing is the unfair burden placed upon British Columbia by the Income Tax.

Now, in B, I say:

"B. Duties of Customs and Excise and Sales Tax as imposed by the Dominion on British Columbia."

This is practically the same question as was considered in the earlier presentation which I submitted, and the criticism Professor Maxwell made about the financial question.

"The amounts of these taxes are set out in Table 103, page 187, Part V.

The figures there given do not represent accurately the payments made by British Columbia, as is pointed out in the pages following the table. They are too large by the amount of duties collected on goods



"consigned to other provinces and too small by the amount of duties collected on goods that enter through points of entry in other provinces and are consumed in British Columbia. It is believed that the one largely offsets the other, so that the figures become approximately accurate. With regard to excise duties and taxes, and tax on gold, bank note circulation, and insurance companies, the figures for collection in British Columbia cannot be taken as representative of the incidence on British Columbia individuals and industry.

In a number of cases the collections are much smaller than the actual proportion of revenue from these taxes that are paid by individuals and industry in British Columbia. The sterling example is the sales tax, which on goods manufactured in Canada is collected at the point of production. The greatest part of Canadian manufacturing is concentrated in Ontario and Quebec and the sales tax is collected there at the source. The collections at the plant would be shown as part of the Dominion revenue collected in these provinces, even although as is the case, a large portion of these goods are consumed in other parts of Canada, where the ultimate consumer must pay the tax.

The same principle also applies as to income taxes. This is pointed out in the evidence of Mr. Fraser Elliott, given before the Commission at Ottawa, page 3529:--'I have shown you the money we collected and now perhaps I might break it down into



"the places from whence it comes. It comes mostly from Toronto and Montreal. These districts really collect money from all parts of Canada because the head office of many companies is in these big cities. Their activities however extend across Canada. They make profits in every province. These profits come home as part of the head office accumulation, and is therefore reflected in the financial statements and in these centres taxed. When we say that the amount of money is collected from Montreal and Toronto, it is true as to the place where the hand that received the money is located; but it is not true in the sense that the money is earned in these districts. It is earned all across Canada.'

Again, the tax on bank notes is collected from the head offices of the banks, all of which are in Ontario and Quebec, and no revenue is shown as collected from British Columbia, although the banks have extensive circulation of their notes there."

Professor Carrothers has made an analysis of this question which you will find on page 187. You will be able to see there, how far these figures can be taken as accurate. Evidently the information for which I was looking is not on page 187, it is on page 189. However, I will leave that for the moment because I am making this statement; in the text prepared by Professor Carrothers he examines, so far as one can examine, because the statistics are not available, the nature of the commodities which come into British Columbia. It is set out, insofar as is possible, how much of this is not being consumed in British Columbia but going to other parts of Canada, or the Yukon. As



against that, he also takes into consideration, so far as one can estimate it, the goods which come in through other ports of entry in Canada, and are brought to British Columbia and consumed here. It is on that portion of this counter-consideration that he arrives at the figures which have been given and which I have read. He states, as I have stated, in my argument, so far as can be estimated, one probably about balances the other. You have, in addition, the historical support for that. In the early days when it was known that many goods were carried through in bond to Eastern Canada and could not be charged or credited to us, and this proportion was very striking. I gave you the figures for that, even back in 1870 as well as for later years, so his estimate on that, I think, is borne out. I continue to read:

"Bearing in mind these qualifications, the following figures are quoted from the Tables for 1935-36:--

Customs Duties collected at British Columbia ports of entry	\$7,217,000
Excise duties collected in B.C.	3,050,000
War tax revenues--Excise taxes	11,070,000
Tax on chartered banks (note circulation) and Insurance companies	115,000

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\$21,452,000"

THE CHAIRMAN: Senator Farris, just a moment, this table of excise duties and duties on liquor and tobacco, are they?

HON. MR. FARRIS: I take it they would be, largely, yes.

THE CHAIRMAN: Those are consumed in British Columbia, or do you ship out any?

HON. MR. FARRIS: I think it is probably safe to say





we consume more of that which comes through eastern ports than we do of that which comes through our own ports.

THE CHAIRMAN: You bring in more than you ship out?

HON. MR. FARRIS: Oh, yes. I want to get the page--I will give it to the Commission later--where professor Carrothers arrives at his figures and the balancing of one against the other. I have the wrong page indicated here. It is on that assumption that these figures are given; it is not done blindly, it is done after intelligent consideration. Whether it is right or wrong, it is an approximation, the best which can be accomplished under the circumstances. Continuing:

"C. The Incidence Of The Tariff In Relation To Commodities Purchased In Canada Outside Of The Province At Prices Enhanced Because Of The Tariff.

It is not proposed in this submission to attack the principle of protection with a view to its removal, or even to advocate a lower tariff. If parliament in its wisdom determines that a protective policy is for the general advantage of Canada, the individual provinces must accept this policy as for the common good. This does not mean, however, that the nation should not have due regard to the drain which this policy may impose on some constituent part, or that this drain should not be considered in the financial arrangements between the provinces and the Dominion.

We have already dealt with the effect of the tariff in the collection of customs duties. The operation of the tariff in relation to protected



"goods purchased by the citizens of one province in other provinces is not so obvious, but in its effect it may be more direct than in the case of duties collected at the border. As to these latter, the province at least enjoys some share in its participation in the general revenues of Canada. In the case of the toll taken by the higher prices paid in Canada, the levy does not reach the Treasury but goes directly to the manufacturers."

THE CHAIRMAN: Senator Farris, just on that point, does that mean that British Columbia's industries derive no benefit from the tariff?

HON. MR. FARRIS: Yes, we propose to quote figures which will show, later on, that the great bulk of British Columbia's industries sell in the competitive markets of the world. We buy from Ontario and Quebec about \$55,000,000 worth, I am getting ahead of my story, and we sell about \$5,000,000 worth.

THE CHAIRMAN: Is there not protection given to your fruits and vegetables?

HON. MR. FARRIS: That question does not enter at this point.

THE CHAIRMAN: I am only think of the statement which has been made, that there is no appreciable benefit.

HON. MR. FARRIS: This is not an argument attacking the tariff; that may be criticised in the sense in which you are doing it, sir. I am not stating there is no appreciable benefit of the tariff as applied to the other parts of Canada. We are considering now the drain which the tariff is making on British Columbia for the benefit of the other parts of Canada, that is what we are considering.



Now, the fruit--that is an economic question which is not involved in the discussion here.

THE CHAIRMAN: Must you not take the bitter with the sweet?

HON. MR. FARRIS: It does not affect the sweet, at all.

THE CHAIRMAN: If you get benefits, must you not take that into consideration?

HON. MR. FARRIS: I quite agree, but you must make your application on a proper basis, with deference, Mr. Chairman. What I say is this; we are considering the relationship of British Columbia in Confederation, we are considering it from that standpoint. I am reluctant to say this, but for the purposes of comparison, I would be entitled to say that if British Columbia had not come into Confederation but had remained as a separate entity, it could have had a tariff to protect its own vegetables, carrots and beets. We are considering now the Canadian tariff from the standpoint that it is making a drain on British Columbia and measuring the benefits which British Columbia has received. We are not attacking the tariff, we are not even advocating the tariff should be lowered, as that is a matter which must be considered by the Parliament of Canada. It would have to be the general policy of Canada which would govern that matter, but we are considering the continued incidence of this as a proper thing to consider <sup>in considering</sup> the whole financial set-up of the province.

COMMISSIONER DAFOE: If you were a separate state your local market, of course, could be completely controlled by your local tariff, but if the importations from the east,



made possible by the tariff, is a handicap or burden, is it not equally true that there is to some extent, I would not suggest, it is at all equal, but there is to some extent a set off that you have outside markets in Canada, now, which you would not have if you did not have the benefit of the Dominion tariff. I think it is this point that the Chairman wished to make.

HON. MR. FARRIS: I do not think that was the point which the chairman was making. If it was, we have been at cross purposes. I understood the Chairman to suggest, "You say it is of no benefit, is it not true the tariff protects your local vegetable market?" This is no benefit from Confederation; we could have had a tariff whether we went into Confederation or not.

THE CHAIRMAN: If you were not in Confederation, you would be in United States.

HON. MR. FARRIS: I would suggest that there is more British sentiment in British Columbia than in any other part of Canada.

THE CHAIRMAN: Not by reason of the desire of the people, but by reason of the force of circumstances in 1870-1871.

HON. MR. FARRIS: I do not know what might have been true at that time, but certainly there would be no menace of that kind at this stage of our development.

THE CHAIRMAN: No, I was not suggesting that; you were speaking of an alternative to Union, and I was saying if there had not been Union, might that not have been an alternative?

HON. MR. FARRIS: With due deference, do not let us confuse our issues. No one will suggest that we should





pay tribute to Eastern Canada for having saved us in 1870.

THE CHAIRMAN: I am only mentioning it because of your alternative, which I think is extreme, when you say if you were not in Confederation, you might be a separate state. The question is, what is right and fair under all the circumstances.

HON. MR. FARRIS: I am saying that I am entitled to say this in answer to the question that the Chairman put to me because the Chairman cannot say, "Is not the tariff benefitting you, you can protect your vegetable market?" This has no relation to the tariff, no relation to what we are paying to Ontario and Quebec, because, in or out of Confederation we could have had that same protection. The only issue we have to consider at this stage is the point which Mr. Dafoe mentioned concerning the markets. Do we get out of the so-called "free trade " area of Canada by virtue of the tariff, enough to compensate us for what is being taken from British Columbia by the same tariff, that is the issue. I am prepared to meet that issue at a later stage. I want to continue at page 26 of my Brief:

"It can be shown that in the case of British Columbia her contribution brings no appreciable benefits, but, on the contrary, she suffers the additional detriment which added costs impose on her industries. British Columbia buys largely in a protective market and sells largely in competitive markets."

I am indebted to a document which has been referred to a great many times before this Commission, as I have followed its progress. This is a Brief which was submitted some



years ago by Professor Rogers. I do not refer to it by way of policy, but by way of additional support to what I am saying/<sup>not</sup>because Mr. Rogers was a member of the cabinet, but because he is an authority worthy of consideration in this connection. I continue to read:

"She is forced to buy at the highest prices and to sell at the lowest. It is submitted that the tariff duty is a tax and a subsidy. It is a subsidy in the same sense in which a bounty is a subsidy. The only material difference is that a bounty is a fixed sum, whereas a tariff subsidy is an uncertain sum. In the case of the bounty, moreover, the amount of the subsidy is collected by the government from the taxpayers and is then paid over directly to a subsidized industry, whereas in the case of a tariff subsidy the government merely fixes the rate of the duty and the subsidy is paid by the consumers of the commodity which is protected.

The truth of this statement is very evident in some industries. The automobile industry serves as a good example. This industry is located entirely in the Province of Ontario, with certain recent exceptions that do not materially affect the argument. It receives tariff protection of rates varying from 20 per cent to 40 per cent under the general tariff. The industry itself admits a protection which permits prices in Canada for low-priced cars "to exceed on the average the price received by United States manufacturers for similar cars by about 25 per cent." (See address by J.C. Armer, of the Automotive Parts' Manufacturers Section of the



"C.M.A., made before the Society of Automotive Engineers, Canadian Section, January, 1938.)"

Mr. Chairman, one of the few advantages which I have had through being in the Senate was to receive this document while I was there. I desire this to be filed.

THE CHAIRMAN: It will be Exhibit number 176.

EXHIBIT NO. 176: Economic Benefits to Canadians. An Address by J.C. Armer, January, 1938.

THE CHAIRMAN: Perhaps you might file the opposite to that statement made by General Motors while this Commission was sitting in Regina, that if the tariff were higher, the price of cars would be lower.

HON. MR. FARRIS: I have one just as good as that here, I am coming to it.

"It is known that the protection is higher in the case of higher-priced cars. It may be of interest to note that Mr. Armer in his address makes this statement: 'It should also be borne in mind that the purchaser of a new low-priced Canadian-made car in the great majority of cases has a used car to trade; and that the actual cash he pays the dealer to consummate the trade is very little more--if any more--than would be necessary to consummate a similar trade in the United States. Therefore, after his original purchase the car owner in Canada in all his subsequent purchases does not pay the apparent difference in prices.'

As this address has been sent to every member of Parliament under the stamp of the Canadian Automobile Chamber of Commerce, presumably this argument is



"intended to be taken seriously and may be some indication of the soundness of the whole case. The answer is fairly obvious. The dealer who takes in the used car on the trade makes the allowance on the basis of its original tariff protected price and resells it on the same basis. The part of the extra price not paid by the purchaser of the new car is made up by the purchaser of the old car, or else must be a direct loss to the dealer. The result is that the purchasers of cars in the province as a whole pay the full additional price of every new car purchased."

Of course, that must be so or else there would be some magic about it.

THE CHAIRMAN: It is now one o'clock, and I think we will adjourn. One would think, Senator, if you desired Mr. Armer as a witness on one subject, you should be willing to accept his testimony on the other.

HON. MR. FARRIS: No, on a statement of fact, as a member of the industry, I accept his figures, but I certainly do not accept his conclusions.

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THE CHAIRMAN: I think you left us with Mr. Armour, at the end of that quotation.

HON. MR. FARRIS: I will read at the bottom of page 26, Mr. Chairman:

"It is estimated that the cost of new cars purchased last year in British Columbia was \$11,500,000. A considerable number of these cars were not low priced, so that the average excess price may be placed at 30 per cent. On this basis the excess cost to British Columbia was \$3,450,000. Clearly this cost is paid by the consumers of automobiles in British Columbia. These figures, in connection with the automobile industry, indicate the justification of the classification of provinces made ante at page 22.

Not only in the case of automobiles but as to industries generally, the tariff protection in Canada confers special benefits upon the central provinces of Quebec and Ontario. It follows that the tariff is a form of subsidy which while given directly to industries is in effect a contribution to the development of the provinces whose industries benefit thereunder. If this subsidy were paid directly out of the Dominion Treasury in the form of bounties to particular industries in particular provinces, it would be comparatively easy to determine how such bounties should be distributed in an equitable manner among the several provinces, having regard to the resources and needs of their populations. A tariff subsidy, however, is not paid out of revenues. It frequently has the effect of contracting revenues. It is paid by those who consume the commodities manufactured by the protected industry, so that the real burden of paying the subsidy may fall upon provinces which do



not share either directly or indirectly in the industrial development it is designed to promote. Manufacturing stimulated by the protective tariff is distributed to some extent among the several provinces, but there has been a disproportionate development in the central provinces of Ontario and Quebec. These provinces have received an excessive share of the tariff subsidy, and, having relatively few export industries, have borne less than their reasonable share of the cost of the subsidy.

The answer which is made to this argument is that, as a result of the tariff protection, a home market is built up for other commodities which benefits not only the province in which an industry is situated, but all the other provinces who share in the purchasing power created by the protected industry. It is pointed out that Canada as a whole is a free trade area, the home market of which is open to the producers of all the provinces. This argument may be sound as far as the facts apply. It has little force when applied to the facts in the case of British Columbia. Distance and freight rates and the nature of her saleable commodities have almost completely shut her out of the protection-created home markets of Eastern Canada. She is forced to buy in these markets at high prices made so by tariff and freight charges. On the other hand, she must sell her wares in the competitive markets of the world, handicapped by distance and the high cost of production imposed on her by the tariff.

Apparently either the meeting of Parliament or the sessions of this Commission stimulated the propaganda activities of the automobile industry. Another document has recently been mailed to the members of



Parliament which may be called a "butter terms" argument. It announces the fact that 'The east eats 20,000,000 pounds of Western butter, worth \$4,500,000 annually to the Western producer.' It states 'Your purchases of made-in-Canada cars help maintain this market by keeping thousands of workers in steady employment with regular pay cheques that enable them to buy more Western foodstuffs.' It further states:

'There are 18,000 workers in Canada's automobile plants, and 15,000 employed in the 202 parts Manufacturers' plants. An average of four to a family means over 130,000 people whose prosperity depends in whole or in part on the activities of the motor car builders. Add as well the employees of railways who live by traffic, and you have a huge cross-section of Eastern Canada - a group of people who contributed much of the \$40,000,000 spent last year for Western farm products."

You will see the large circular which inspired that statement, Mr.Chairman. I would like to file this.

THE CHAIRMAN: There is no objection to your filing it, but do you think it is worth while encumbering the record with circulars of that kind?

HON. MR.FARRIS: Well, that is in your discretion, sir.

THE CHAIRMAN: If you wish to file it we will, of course, file it, but I should say it is only encumbering the record. We must act on facts,<sup>established in some</sup> way other than by circulars sent out by associations, if the facts are important.

HON. MR.FARRIS: It is not easy to get these facts. I take it that these business organizations which circularize members of Parliament and others with



statistics of this kind should be taken seriously.

THE CHAIRMAN: Do you believe all the circulars you got?

HON. MR.FARRIS: No, I do not. I do not believe some of the conclusions that are in here, but I assume that the gentlemen who start out to assemble the facts that they have here ----

COMMISSIONER DAFOE: Do they give the authority for those facts?

HON. MR.FARRIS: No, they do not give their authority for these facts.

THE CHAIRMAN: If you wish to file it, Senator, we will see it, of course.

HON. MR.FARRIS: It is immaterial to me. The substance of what I have to comment on is in my brief on the matter.

THE CHAIRMAN: If the facts are important, we have to have something better than a circular on which to act, that is all.

HON. MR.FARRIS: Of course, it depends upon where the circular comes from, and the circumstances under which it is issued. I am not sure that this should not be taken as printed by a responsible organization, as a serious attempt on their part to enlighten the public on the position, and I have not any particular quarrel with what they say there.

What I am saying, Mr.Chairman, is, here is one of the most highly protected organizations in Canada. The men who are at the head of their publicity department must be responsible and capable men, whether their conclusions are always sound, or not. They make their investigations with some reasonable attempt at accuracy. They have estimated how many men and women in Ontario are being supported by this industry. I take it that these figures





may be accepted until the contrary is shown as being likely to be true.

THE CHAIRMAN: Of course the Dominion Bureau of Statistics could, no doubt, furnish accurate figures, - as accurate as are obtainable.

HON. MR. FARRIS: They probably would not have as many sources of information as this organization has. If there is a conflict between the two, that is another matter, but I rather accept this as being likely accurate as far as it has any significance. I make this point in connection with it, - and I do it with the classification that I have made already:

The automobile industry purchased twenty million pounds of Western butter. That does not seem unlikely to be true.

"The facts of this circular are of special interest to British Columbia. British Columbia did not sell a pound of the 20,000,000 pounds of butter. The real point of the circular, as applied to this Province, is that whereas British Columbia is contributing \$3,450,000 annually to maintain an industry supporting 130,000 tax-paying citizens in Ontario and citizens who are helping to buy 20,000,000 pounds of butter annually from the other Western provinces, none of these direct benefits are coming to British Columbia.

The article further states: 'All told, the East drew on its Western commissary for over \$40,000,000 worth of farm products providing a vital source of income to thousands of Western farmers.' As in the case of the automobile industry, British Columbia paid its toll to support the various industries creating this purchasing power, but no appreciable portion of this money has been directly spent in British Columbia, and very little of it indirectly.



This will appear from the statistics now presented."

COMMISSIONER MacKAY: Perhaps you should get another circular to get the figures on the B.C. apples.

HON. MR.FARRIS: The figures on the B.C. apples are here, sir:

"Table B of Trade Report.

British Columbia bought in Canada, 1935, outside of British Columbia, commodities costing ...	\$66,000,000
British Columbia sold to other parts of Canada (\$8,730,000 being Gold bullion) .....	25,400,000
Sold outside Canada .....	84,648,000
Bought - Eastern Canada - ....	<u>55,000,000</u>
Sold - Eastern Canada - ....	\$ 14,000,000
Less Bullion	<u>8,730,000</u>
Sold to Eastern Canada(Excluding bullion )	\$ 5,270,000
Chief commodities sold to Eastern Canada:-	
Apples .....	\$ 305,000

That is a very small item in regard to the purchasing power which we have, of \$55,000,000.

THE CHAIRMAN: Of course, Senator, I think it is only fair in that connection to keep in mind the fact that your Eastern market is substantially the Prairie Provinces, and the Prairie Provinces have not been in a position in the last two or three years, at least, to buy apples extensively.

HON. MR.FARRIS: Our natural market for our products today is the market of the World. That is what we are depending on. When we got the Western market, meaning the Prairie market, we did not get it because of the tariff, we got it because of the production of grain, which is, again, sold in the World markets.

THE CHAIRMAN: You would not have the market on the prairies but for the tariff, which keeps out American apples, in competition.



HON. MR.FARRIS: But Mr.Chairman, we are doing ample trade with the Prairie provinces to ensure us a protection as far as they are concerned against any dumping, which is the only thing we need protection against.

THE CHAIRMAN: Unfortunately, I am sorry I know a little about the apple business in British Columbia.

HON. MR.FARRIS: My submission from those figures, Mr.Chairman, is, British Columbia is paying, as an incidence of the tariff, all out of proportion to the benefits she is getting. This brief does not say she is getting no benefits, but they are all out of proportion. Take the \$55,000,000 that we are spending in Eastern Canada today, and give us that as a trading power which we can take and apply in relation to other countries, in regard to tariff concessions, and reciprocal arrangements ---

COMMISSIONER MacKAY: Do you mean to say British Columbia does not benefit from any of Canada's reciprocal arrangements?

HON. MR.FARRIS: No, I did not say that. We are benefiting undoubtedly today from the arrangements made in Great Britain in regard to lumber.

COMMISSIONER MacKAY: My understanding of it is that British Columbia is, to some extent, benefiting in the British preferential market at the expense of some of the rest of Canada. If you take that item alone; that is to say, British Columbia is selling much more in the British markets, under protection, than she is buying.

HON. MR.FARRIS: British Columbia, in regard to timber particularly, under the Ottawa agreements, is receiving a benefit from those arrangements, there is no doubt about that, but Eastern Canada, - the Maritime Provinces, are getting the benefit from that too.

COMMISSIONER MacKAY: What I mean is they are proportionately buying very much more/than British Columbia.



HON. MR. FARRIS: British Columbia is doing that on a very narrow margin of profit. What I say is, that if British Columbia were given the full benefit of its purchasing power, in order to secure reciprocal relationship, it would not be in the precarious position it is in today, and it would not be holding its breath, wondering just how long that arrangement is going to last, because every indication is, - I am not speaking now from the standpoint of Government at all, I am speaking of what I know as a lawyer acting for interests in this province, - that every indication we can get from the American side is that that market may be very much in danger. And I say if British Columbia had the control of its purchasing power, the \$55,000,000 it spent in Ontario and Quebec, for which it gets in return a purchasing power of \$5,000,000, it would not be holding its breath about anything.

THE CHAIRMAN: How would British Columbia utilize it? I do not quite follow your argument.

HON. MR. FARRIS: I would say if we made an arrangement with the United States and with Great Britain, as an entity of British Columbia, with the \$55,000,000 that we are spending in the industries of Ontario, in the purchasing of commodities at a higher price here, that we would have no difficulty in saying to Great Britain, "You give us a permanent protection, not 10%, but probably 15 or 20%, in regard to our lumber, in your markets, and we will spend that \$55,000,000 in buying steel, iron, textiles.

COMMISSIONER MacKAY: Has Great Britain given any arrangement like that to any part of the Empire?

HON. MR. FARRIS: Well then, let us take it with the United States; that is the question of what has been done. I do not know of any part of the Empire, in order





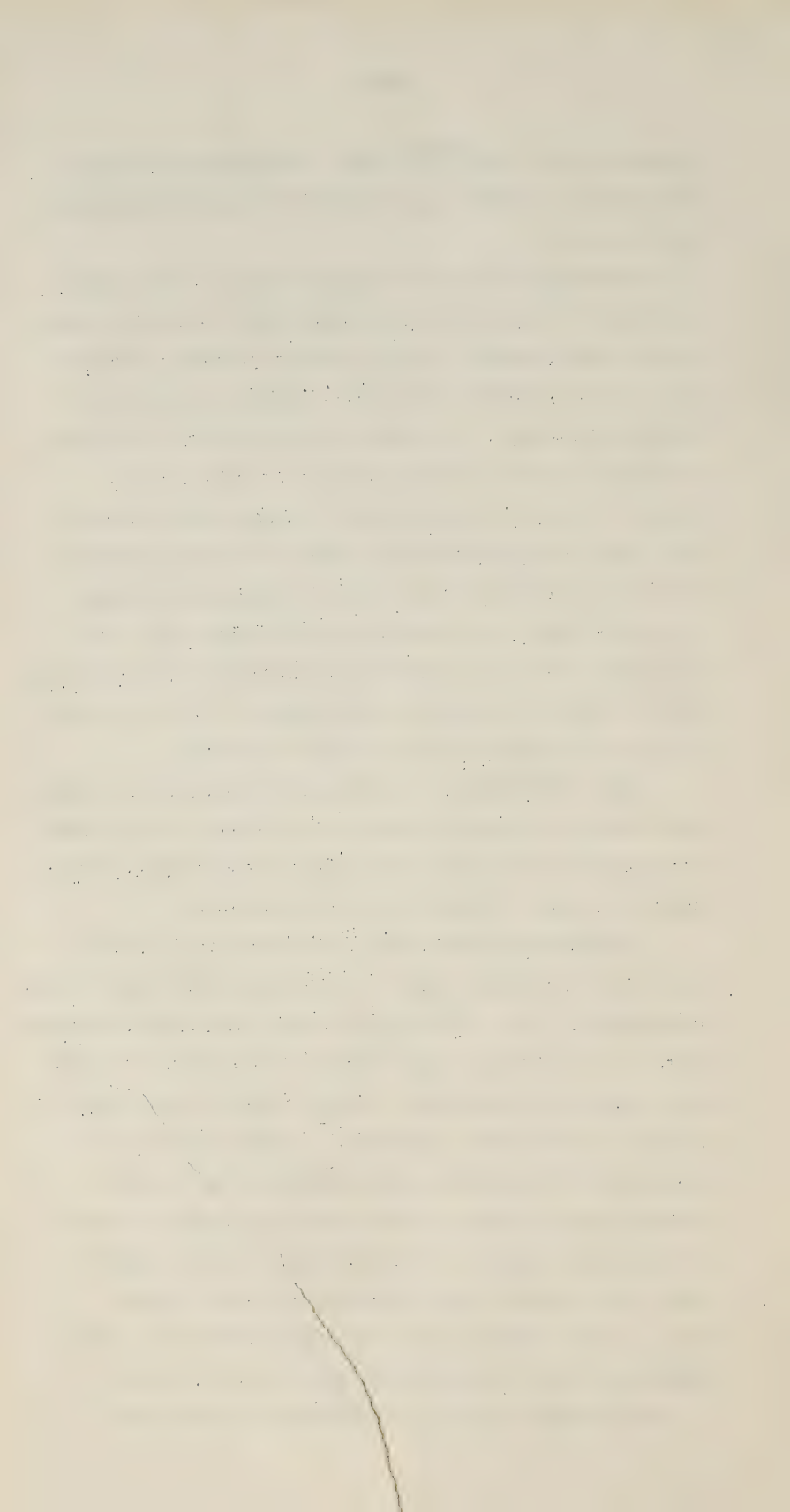
to secure that trade/<sup>which</sup> would make the sacrifices we have had to make in order to get \$5,000,000 worth of purchases from Ontario.

COMMISSIONER DAFOE: New Zealand three or four years ago offered to admit British goods free of duty in return for an assured market for New Zealand products, and got very promptly snubbed by Mr. J.H. Thomas, who was then Colonial Secretary. It might not be so easy. Of course, the United States is quite set in its protectionist views. If you were interfering with any native industry down there you might find the offer of a free agreement here would not affect their rather determined attitude to protect their own products against competition, on the ground that home products are entitled to the American market. There is a very strong feeling, - I do not think it is an enlightened feeling, but it is there.

HON. MR. PATTULLO: Following that argument, it would seem then that British Columbia is hog-tied. We can make no arrangement with any other place in the World. Consequently we have to accept what is given to us.

COMMISSIONER DAFOE: Well, the World is in such a state that you cannot count on anything in the way of trade arrangements. All I would say is that the present arrangements may be difficult and onerous, but I think it would be a mistake to assume that the way would be wide open for an easier arrangement elsewhere. I might say that Mr. Macdonald of Nova Scotia made substantially the same statement with respect to Nova Scotia products. He said if they could make an arrangement such as you suggest they could increase their fish exports three times. Well, I would think he would run into difficulty, and I suggested to him that he might run into difficulty.

THE CHAIRMAN: You see, Newfoundland is the one



original negotiator for Confederation that remained out of Confederation. She has not been, in the end, much better off than those who came in. There is a case of a colony that stayed out, and has been unable to make more advantageous trade arrangements than the Dominion.

HON. MR. FARRIS: I doubt very much, Mr. Chairman, if it can show any inducement in the way of purchasing power that our figures in British Columbia show. I refuse to accede to the suggestion that if we were free to utilize that purchasing power which we have, that we could not put ourselves in a better position in that connection than we are now. In the first place, we could do this: We certainly could buy at prices that did not involve the incidence of the tariff in the excess costs that are imposed upon us.

THE CHAIRMAN: You are putting to us a suppositious case, where so many elements enter into it, it seems to be impossible to base any conclusion on what you could or could not do if you were a separate entity.

HON. MR. FARRIS : It is not a suppositious case to say this: that the incidence of the tariff which forces us to buy \$55,000,000 worth of industrial products in Ontario and Quebec, is costing this province in purchasing prices a large sum in excess of what it would otherwise be. It is not a suppositious case . To take automobiles, we know we can put our finger on that and say that item alone costs between three and four million dollars. It is not suppositious to say that the excess costs which go into the imports which we bring in here which are necessary for us to produce our raw products which we sell elsewhere, goes into the cost of those, and greatly hampers us in getting into the market we have to get into, on a very narrow margin.



THE CHAIRMAN: I am not questioning that, I am questioning the other, - just raising the points that it is impossible to base any solid argument on what the situation would be if it were wholly different to what it has been in the past seventy years. You are entitled to argue, and you have argued it with great force, that the incidence of the tariff, the Dominion policy, bears with heavy weight upon you in this province as compared with the Central provinces, and that that is a matter which should be considered by the Commission.

HON. MR. FARRIS: Yes, that is what I say, and surely these figures are tangible and definite proof of that.

THE CHAIRMAN: Do you attach any weight to this consideration: In all the tariff elections which have been held since 1878 ; - 1878, 1891, and 1911, this province unanimously, so far as its members were concerned, returned in favor of a higher tariff, for protection, and in 1930 the majority were in favor. Did that not indicate the people of British Columbia considered the tariff a benefit to them? I would like to have your observations on it.

HON. MR. FARRIS: Well, I have two or three observations to make on that. In the first place, I am not now advocating the repeal of the tariff, and as a Canadian I would not be in favor of the repeal of the tariff. But as a British Columbian I would have no hesitation in saying that a board such as this should take the incidence of that tariff into consideration in the adjustment of the unequal position in this province. What might be my individual position may be that of others in British Columbia. I am not here, seeking to break up Confederation, I am here as a strong apostle of Confederation, and I am preaching that all over Canada, individually, as well as appearing here as counsel for British Columbia, - for a Government that takes absolutely the same view.



I would not hesitate to say - although I have been taught the principles of free trade, - that so far as present-day conditions in Canada are concerned, as a Canadian, I will support a reasonable tariff. But that is no reason why I should not say, as a British Columbian, that we as a province are paying a big penalty by doing that, and we ask the rest of Canada to take that into consideration in our internal adjustments. That is one answer.

THE CHAIRMAN: Well, that is an argument you are entitled to make, and which you have made with great force.

HON. MR. FARRIS: Another argument is, that one is not always sure of the wisdom of what goes on at election time.

COMMISSIONER MacKAY: Does British Columbia subscribe to that?

HON. MR. FARRIS: Looking over the past number of years, yes. The effect of these different reasons I am advancing are accumulative, and when I get through with them I want to attempt briefly to group them all together, leading to one conclusion. I will proceed to the next one;

Five: Not only is the federal income tax excessive and an invasion of the field of provincial sources of revenue, but it is applied on a principle contrary to the spirit of Confederation.

"The British North America Act has allotted to the provinces ownership of the lands, forests, minerals, and other natural resources. The Dominion is taking as an income revenues derived from the depletion of these assets. From the standpoint of the individual the returns from the disposal of the forests and mines of the provinces may be deemed to be income, but from the standpoint





of the Province it is a disposal of her capital assets."

Now, I want to refer to a discussion elaborated in the main brief on that, at pages 37 to 48. I think I will begin at the beginning of this heading on page 36, Mr.Chairman.

"The forest resources of the Province are extremely important from an economic point of view. The forest area occupies approximately 75,000,000 acres, and this area consists of timber, some of which is accessible and some inaccessible. The accessibility or usability of the forest resources varies in relation to a number of factors, such as market price, transportation costs, labour costs, distance from tide-water, physical availability, etc., The ultimate boundaries of the accessible forest area in this Province are settled not only by physical conditions in the forests but by the competitive conditions in the forest areas in other parts of the world.

The only part of the immense forest resources of the Province of British Columbia which have any real significance is that which can be commercially utilized. The domestic market is limited; consequently, British Columbia is dependent on world markets for the sale of about 80 per cent. of its forest products. In 1935 the value of forest products amounted to \$56,941,000, of which \$44,695,413 was exported. Our forest areas are at a considerable distance from the great consuming centres. Regardless of the absolute quantity of timber in the Province of British Columbia the only timber which we can make use of is that which can be got out at a cost which



is comparable to that in other forest areas. At the present time we are selling lumber from trees averaging from two hundred to three hundred years in growth. It is only the fact that nature has provided us with this resource at no cost of production that we are able to compete at all in the markets of the world. Were it necessary for us to cultivate our forests, as is the case in European countries, the cost of production would be so great as to make it impossible for us to enter world markets. In other words, so far as our forest industries are concerned, we are harvesting a crop which has been grown for several hundred years, and which, once harvested, can never be replaced.

THE CHAIRMAN: Senator Farris, I thought those natural areas re-seeded.

HON. MR. FARRIS: I am giving some information on that in this report, Mr. Chairman.

"It will take from one hundred to one hundred and twenty-five years to grow a merchantable crop of trees on the areas now being denuded, and even then these trees would not be comparable - for the production of lumber products - with the trees now being used. An appreciation of this fact is of very great importance in studying the economic basis of British Columbia in the future.

British Columbia's forest industries are of extreme importance to the support of this community. Out of a total value of production in agriculture, fisheries, forests, and mines, of \$188,000,000 in 1936, \$72,000,000 came from the forest industries, \$54,000,000 from the mines, \$46,000,000 from agriculture, and \$16,000,000 from the fisheries.



Further, of the 75,000,000 acres in this Province capable of growing trees, little could be productive in any other way. In other words, it can only grow trees, and if it does not grow trees, it becomes barren land. Thus, it can be seen that insofar as the forest industries are concerned, and the revenues which accrue to the people of this Province and to the Government through the exploitation of these resources, this revenue is not a true income but is the result of the sale of capital resources which in the nature of things, can be replaced only in part. Because of the necessity for the use of these resources for the support of the community and the necessity of keeping the cost of production at a competitive level so as to sell British Columbia forest products in world markets, it has not been possible for the industry to support an adequate programme of forest conservation and development. Much has been done, and in the recent session of the Legislature, legislation was enacted to extend the policy of conservation; but even this must be admitted to be inadequate for the preservation of the forests as a permanent resource for the support of this community. Consequently, when the income of the people of British Columbia and the revenues of the Government from our forest industries are considered, it must be kept in mind that the income and revenue results from the exploitation of a resource which has been supplied by nature, which nature cannot readily replenish, and which, in the not-distant future, is likely to produce a decreasing income and revenue.

Because of the circumstances above referred to, many of our cut-over forest areas are not reproducing



satisfactorily. On the basis of the present cut the Douglas fir resources, which are now accessible, are likely to be exhausted in from twelve to fifteen years. The value of our other accessible forest resources in the future will depend to a large extent on the development of an increasing demand for other types of lumber, such as hemlock and cedar. Of the 75,000,000 acres of forest land, 23,000,000 carry mature timber, 32,000,000 carry immature timber, and 20,000,000 acres are not reforested. A recent examination of the Vancouver Forest District, which includes Vancouver Island and the Lower Mainland and, in fact, includes the greater part of the really large timber areas of the Province, indicates that at least fifty per cent of the cut-over area is not reforesting properly. It might be said by those not familiar with the situation that this is merely the result of an inadequate policy on the part of the Provincial Government. An examination of the situation would reveal that in the matter of a conservation policy the Provincial Government has done all that was possible, when all the factors including cost of production and marketing are taken into consideration. It would have been easy to evolve an ideal forest policy, but that policy would have increased costs of production and, as stated above, the competitive conditions of the market made this impossible."

One might observe this might have increased the cost of production so as to very materially cut down the Dominion income tax by requiring this money to be applied for reforestation.

THE CHAIRMAN: Does most of the Dominion income tax





come from the lumber men?

HON. MR.FARRIS: No, but quite a little of it does.

Mr. Harris suggests 74% from corporations.

MR.HARRIS: That is Dominion, and the province would be perhaps a greater percentage.

HON. MR.FARRIS: I will continue reading:

"This situation with regard to one of the main resources of this Province cannot be too strongly emphasized before this Commission.

Table 9 shows the Provincial forest inventory, giving the total merchantable timber and the accessible merchantable timber. Statistics of production of the principal saw-mills, shingle production, and pulp and paper production in this Province are given in Tables 10 and 11. Table 12 shows the total net value of production of the forest industries in British Columbia, 1915 to 1936, including manufactured products. A study of this Table indicates the variable character of this industry from the market point of view. As stated above, 80 per cent of our forest products are sold outside of Canada and in competition with other forest-producing areas. Even in the home market this industry receives protection only to a minor degree. Consequently, the income of the Province from this source is a very uncertain one, and it is open to all the influences of international disturbances."

Then, at page 39, tables 24 and 37 show the relative importance of the forest industries in the provincial economy. It is of vital importance that our forests and forest industries should be organized on a permanent basis in order to maintain a continuous export of forest products on the maximum scale. And then this



quotation, which is from Mr.F.D. Mulholland, of the Department of Lands, Forest Branch.

"These industries now provide direct employment for 30,000 men. No other natural resource in the Province is capable of absorbing the labour of these men if they should be thrown out of work by reason of the dissipation of forest resources. Civilized life in British Columbia would become impossible for them and their dependents; probably most of them would be compelled to migrate to other lands, together with many other indirectly dependent upon this basic industry.'

"In British Columbia the exploitation of natural reserves of timber that have taken centuries to accumulate, by persons leasing the land with little or no interest in the possibility of another crop one hundred years later, offers an example of the results of an enterprise in which immediate profit is the main motive. Mill towns flourish suddenly and die away as the surrounding region is denuded, and ghost towns and rural slums are left to mark what was once a seemingly prosperous village or town.

British Columbia is 9,000 miles away, by the Panama Canal, from the principal world markets of forest products. So far, although at a disadvantage as regards distance from the main market, British Columbia firms have largely been able to overcome this obstacle, due to the quality and size of the timber exported. As the amount of marketable and accessible virgin growth decreases, the advantage of quality and size will become less, but the distance of British Columbia from Europe will remain the same."



"Table 13 shows the forest classification of British Columbia on the basis of its condition. Of the 75,023,000 acres of productive forest land, 20,052,000 acres are not reforested, 32,315,000 acres are immature timber, and only 22,656,000 acres support mature commercial timber. Thus at the present time, a total of 54,971,000 acres is productive. All the timber on this area is not accessible, and Table 9 shows that less than one-half of British Columbia's timber is accessible, amounting to 109,738 million feet board-measure. This is the timber which is available under present conditions as a source of income for the people of this Province.

To preserve our forests as a source of income in the future so as to establish our forest industries on the basis of sustained yield would require a costly policy of conservation."

This is the quotation:

"In an ideally regulated forest the growing stock is in condition to produce a maximum annual yield; there are no decadent stands, everything is growing and the yield is harvested as fast as it matures. Only a small part of such a forest is composed of fully matured timber and the age classes are graded down from mature trees to seedlings."

That is a quotation from, I think, Mr. Mulholland as well and then reading on the next page:

"It is only on this basis that permanent communities can be supported, the trees being harvested as they mature just as crops in agriculture are grown and harvested, although over a shorter period



"of time. It is important to know what the sustained yield possibilities of British Columbia's forests are, for only through knowing the extent of these potentialities and comparing them with the actual rate at which logging is proceeding today can we ascertain whether or not we are impairing our forest capital.

Coast Douglas fir has always been a leading export type. It is now being cut from trees, two, three, or more centuries old at the rate of one and a half billion board feet a year. Only approximately 18 billion accessible board feet of this type remain, and there is an inadequate area of middle-aged fir. At the present rate of cut the industry will have to turn to other species 12 years from now. Fortunately there are large stocks of mature hemlock and cedar of excellent quality but when these are gone Coast industries will be dependent upon second-growth. Due to the inaccessibility of the interior reserves the Coast industries must largely stand or fall with the Coast forests.

"If we have in mind a sustained yield of 100-year-old trees, the industries are already overcutting the accessible Coast forests by 100 per cent. and the inaccessible by 20 per cent. Even if we believe 60-year-old trees will be good enough for our children, we are overcutting the accessible areas by 40 per cent., though the cut can be increased up to 2,900 million feet if all the back areas can be reached."

That is from Mr. Mulholland as well.

"Table 14 and the following quotations are from





"a publication, soon to be released, written by Mr. F. D. Mulholland, head of the Forest Surveys and Working Plans Division of Forest Service of the Department of Lands, Province of British Columbia.

'Sustained-yield Capacity of the Coast.--Dividing the volume of merchantable timber by the number of years required to grow a merchantable second crop and adding the mean annual growth in immature stands already established is a simple means of estimating the sustained yield. The figures in columns (2) and (3) are based on present utilization standards. These limit the gross Coast production to 1,836 million feet total, or 1,032 million from accessible areas, on a sustained-yield basis. That is to say, depletion by logging and fire should not exceed these figures. In 1936 depletion was 2,700 million feet.

But it is expected that a gradually increasing market for fabricated products, pulp and cellulose derivatives will be developed, and timber large enough for these purposes can be produced on an average site on the Coast in sixty years, yielding on fully stocked areas between 5,000 and 6,000 cubic feet per acre of small material (or 20,000 board-feet, B. C. log-scale, in trees over 10 inches D.B.H.). If it is assumed that such timber, produced by 60-year-old trees on the Coast will be merchantable as a chief product within the next half-century, then the old mature stocks can be utilized more quickly. The sustained annual yield capacity would thereby be increased by 1,050 million board-feet to a gross total of approximately 2,900 million feet in the Coast



"region, including for this estimate all the timber now considered inaccessible. Increase beyond that yield will depend upon closer utilization of the mature stands and reforestation of denuded areas.

On the same assumption that 60-year-old trees will become merchantable within the next half-century, but without including any yield from areas now considered inaccessible, the sustained-yield capacity of the Coast would be increased by 500 million feet to a total of 1,500 million feet.

It would seem that the Coast forests are being cut beyond their sustained-yield capacity, unless it can be increased by closer utilization in logging, more successful reforestation, protection of the immature stands, and replanting of areas denuded in the past as quickly as this can economically be done."

Then, I think I should read on the next page and the next two pages.

"Sustained-yield Capacity of the Interior.--In the Interior forests smaller trees are now utilized and growth is much slower than on the Coast. It is not expected that marked conditions will make it possible to lower the maturity ages for merchantable crops, on which the calculations in the above table are based, for a long time to come; but closer utilization at maturity of the present immature stands has been counted upon in the estimates. The total average annual depletion in the Interior is below the accessible sustained-yield capacity by about 200 million feet, although some localities and species are being overcut. However,



"the fire-loss is so irregular that far more than the whole yield may be destroyed in any year, as it was in 1936, when 940 million feet of timber and an accumulated increment of 140 million feet in immature stands were destroyed."

In Table 14 it is seen that the accessible timber on a sustained-yield in the Coast region is 997 million board feet, and in the Interior 560 million board feet, or a total of 1,557 million board feet annually, this is assuming rotation maturity of 100-120 and 100-180 years respectively. The average annual cut over a 10-year period has amounted to 2,541 million board feet. This means that, under present conditions, 38.7 percent. of this annual income from our forests is really capital which is not being replenished.

It may, however, be argued that accessibility may increase; that is, that new methods of transportation may be used which would reduce costs, and smaller trees may be used. Assuming it would be possible to harvest and market trees sixty years old, this would increase the accessible yield of the Coast area to approximately 1,500 million board feet per year. Such a change would alter conditions in the Interior very little, so that even on this assumption the total accessible annual yield on a sustained basis cannot exceed under the most optimistic circumstances 2,000 million board feet annually. Economic limitations are as real as physical ones, and although areas may become accessible from an engineering point of view, the cost may be too great to make such production profitable. It is not possible to forecast what



"changes may take place in conditions in the future with regard to markets, logging technique, tariffs, new uses for wood products, or substitution of other products; consequently, these reserves must be analyzed as conditions exist at the present time. The disastrous effect on our forest industries of an attempt to place our forests on a sustained-yield basis at the present time can be readily seen. A reduction in the cut from 2,541 million board feet to 1,557 million board feet would mean a reduction in employment not only in the forest industries themselves but in other industries and occupations which they support. It would mean a considerable reduction in the income of the people of the Province and in the revenues of the Government; in fact, such action would be in the nature of a major catastrophe.

Another quotation from Mr. Mulholland:

"It would be unreasonable to attempt to restrict utilization of the forests to their capacity for accessible sustained yield of merely the quality of products which our industries and markets are taking today; to do so would mean a reduction of output from the past ten years' average of 2,541 million board feet, worth \$63,308,300 to 1,557 million board feet; but it would be reckless to exploit the accessible forest resources without limit, on the unproved belief that the next generation will not need the products of old-growth timber and that quickly-grown trees and forests now inaccessible will meet the demand."

Table 15 shows the annual cut, 1914 to 1936. The average cut for the ten-year period," and so on.





"The policy of setting aside certain areas as forest reserves has been adopted, and in all there are 39 such reserves in this Province. The original object in establishing these reserves was conservation so that a continuous production of timber might be secured from them. In some cases water-shed protection is a secondary object.

It can be seen that, assuming the present average cut to continue, we are using capital in our forest industries which is not being restored to the extent of 38.7 per cent. of the annual cut, and even assuming an increase in accessibility and the use of less mature timber, we would still be using capital to the extent of 21.3 per cent. annually. Tables 24 and 25 show the proportion of the Provincial income and wealth due to our forest industries, the forests accounting directly for 10.34 per cent. of the income and 18.62 per cent. of the wealth. Part of the income from transportation and other services would also have its source in our forests.

The exploitation of British Columbia's forest resources is of great financial benefit to the Provincial Government as well as to the people of the region. Table 17 shows that over the ten-year period 1927 to 1936 the forest revenue was on an average, \$3,138,224 each calendar year. Over this period the average cut in British Columbia was 2,541,380 M.B.M. Thus, as an approximate relationship, each thousand board feet of timber cut means \$1.23 revenue for the Provincial Government.

Any conservation measure on the part of the Provincial Government attempting to limit the annual



"cut, would inevitably mean a reduction in the Forest Revenue. The sustained-yield of the accessible timber has been put at 1,557 million board feet per annum. Assuming the relationship of \$1.23 in receipts to the Government for every thousand board feet cut, the Forest Revenue would fall to \$1,915,100 annually, a reduction of \$1,223,114 from the average annual receipts realized over the ten-year period 1927-1936. Thus, conservation measures would mean not only extra expenditure by the Provincial Government, but in addition, reduced revenue."

Now, gentlemen, I think that brings home very graphically the situation and that too must be part of the answer when it is suggested "oh well, we ought to pay income tax, we have got the money", that is one of the factors that has got to be considered in the situation in British Columbia.

THE CHAIRMAN: Would not that apply with equal force to Ontario and Quebec in their timber, pulp and mining Senator?

HON. MR. FARRIS: I have no doubt it may except with this difference, that your pulp-wood is a small, comparatively younger growth.

THE CHAIRMAN: It matures more rapidly, it can be used sooner?

HON. MR. FARRIS: It does not mature more rapidly because I think our timber matures more rapidly than it does in Ontario, but it has that distinction to begin with, and the second thing is that that is only a fraction of the industry in Ontario and Ontario, because of the fiscal system of Canada, in which assistance is received from British Columbia and elsewhere, is building up other industries and other activities that can take the place of



it. But that is not so in British Columbia. This has always been said -- I have been out here considerably over thirty years -- and it has always been said in my time here that the good times in British Columbia were when the lumbering is prosperous and there is never good times when it is not. It is the very basis of our existence. It is the basis of this revenue not only which Mr. Hart mentioned which comes from the timber industry but it is the key to many activities in our industrial affairs in this province and without it the situation in British Columbia may be very serious and undoubtedly will be.

COMMISSIONER MacKAY: Is it not possible that the tariff has had a conserving effect on B. C. lumber, by raising the cost of production, lessening the exploitation of the forests?

HON. MR. FARRIS: Yes, I suppose if they would make the cost of production high enough we could not cut any of it and we would give up and there would be no income tax coming from British Columbia as equal to the other six provinces.

COMMISSIONER MacKAY: Should you not put that down on the tariff side?

HON. MR. FARRIS: Well, if we are going to <sup>go back to</sup> complete primitive conditions when there is nobody living in the province that may be so. I may say, though, I am a little at a loss to follow that suggestion.

COMMISSIONER MacKAY: The suggestion is it raises the cost and therefore lessens the exploitation. Therefore it would follow there would be more forests cut down if there were no tariff

HON. MR. FARRIS: You are only mentionin a small factor of the consideration. The exploitation and continued exploitation of these resources are essential to the industrial





life of this province. Now, we can shut down on that and save that for future generations and not use it to-day. That would mean that we would simply walk out of this province and it would certainly mean that Canada would receive no revenue from this province. But what I am saying is that if British Columbia, in order to keep itself alive, finds it necessary to realize on its natural resources, that it is contrary to the very spirit of Confederation, that the Dominion should step in and say "We will share in the spoils". And while theoretically that argument which the Chief Justice has cited to me may apply to Ontario, it does not apply with any of its devastating effects for three reasons: the first reason is that the provision for continuity of growth is much less in Ontario because it is a younger tree that is used, and secondly because of the compensating industries/<sup>that</sup> the fiscal policy of Canada is permitting to be grown up and developed in Ontario, but none of that exists in this province.

THE CHAIRMAN: I thought you were developing new industries from time to time in this province, Senator?

HON. MR. FARRIS: We are developing some industries in this province, of course. We are developing some industries but not comparable in any sense with Ontario.

THE CHAIRMAN: Oh no.

HON. MR. FARRIS: Surely, Mr. Chairman, it must not be inferred in this argument I am making that we have no benefits in Confederation at all. I am not claiming that. If this were so then any person living in this province must demand that we get out of Confederation. We are not taking that position. All our arguments are on the common basis that we are in Confederation. We recognize the advantage of being in Confederation and want to stay here, but that does not detract from my right, when viewing the





internal organization among the provinces, to point out there are injustices and they should be rectified.

THE CHAIRMAN: Quite so.

HON. MR. FARRIS: In Part 3, in answer to your question, Doctor Carrothers calls my attention to this paragraph on page 54:

"British Columbia is the third Province in the Dominion from the point of view of manufacturing industries, being led by Ontario and Quebec."

I stop there, that would seem to be a complete case against us.

"However, the order of precedence is of little significance, British Columbia lagging far behind. The total net value of manufactured products in 1935 in Ontario was \$668,918,734, in Quebec \$393,805,691, and in British Columbia \$92,260,804. A study of these industries would show that a large part of production in the manufacturing industry in British Columbia is devoted to the production of partly-manufactured products rather than consumers' goods."

And I think I might add to that, Doctor, that that means virtually all our natural resources, such as our timber and our minerals. Yes, it is right here:

"This is true of a large part of the forest industries and also of manufacturing industries based on minerals, so that not only is British Columbia an insignificant third in the manufacturing industries, but those industries naturally are conditioned by the resources of the Province. Here again a large part of the manufactures must be sold on world markets, as they are largely of a character for which there is little consumption



"within Canada.

Table 21 shows the net value of production in the various industries of the Province as computed by the Dominion Bureau of Statistics."

Now, I am attempting to do two things as I proceed with this argument, Mr. Chairman. I am attempting to develop each of these two points to stand separately on its own feet and I am attempting to bring them together as an accumulation in reply to the offhand suggestion "You have the money and you ought to pay".

THE CHAIRMAN: I thought it was put in here in order to show that you were entitled to a readjustment, not in answer to any offhand suggestion.

HON. MR. FARRIS: Well, I say that it is an offhand suggestion that we have got the money and that we should pay.

THE CHAIRMAN: Well, Senator, don't let us get at cross purposes. All we are anxious to do is to elicit all the relevant facts.

HON. MR. FARRIS: I quite appreciate that.

THE CHAIRMAN: And do what is fair and right on the basis of those facts. Now, if questions are asked, they are only for the purpose of elucidating the subject and getting your replies and answers with reference to it.

HON. MR. FARRIS: If I get argumentative, please don't misunderstand me. I am very grateful to the Board for all the questions they put to me and if a question puts up a target for me to shoot at, please don't think I am shooting at the Board. I take it that that is the only way that I can effectively --

THE CHAIRMAN: In this connection, do you not agree with this proposition: If the Dominion is in the income tax field at all it must treat all provinces and citizens



alike?

HON. MR. FARRIS: Now, the difficulty, Mr. Chairman, of that suggestion is that the argument of the injustice is being tempered by the argument of the alternative.

THE CHAIRMAN: No, there are two things. The question of whether you are entitled to some special consideration is one thing. The other thing is who should levy an income tax, the Dominion or the province or both. Now, on the question of the Dominion income tax, is it not inconceivable that there should be an income tax which would differentiate between the provinces? There must be a common income tax on every individual. You may say there should not be a Dominion income tax. You may say that the Dominion income tax should be subordinate to a provincial income tax, but if there is any Dominion income tax at all must it not be on the same basis with respect to all citizens in all parts of Canada?

HONR. MR. FARRIS: Yes I think so. As far as we ordinarily conceive the idea of taxes they must be general in their application and collection although not necessarily uniform in the application of its expenditure after it is collected.

THE CHAIRMAN: That is an entirely different question.

HON. MR. FARRIS: I say that all comes back and with great deference I cannot help but feel that that question does indicate that the Board is naturally, at all times when one is considering the question of whether there is an injustice or not, keeping in mind the alternative, "Well, how is it to be remedied?" Now, that is not my task for the moment. My task for the moment, my self-imposed task, if I may be permitted to put it to you in the way I wish to, is that so far as British Columbia is concerned, and I am not shutting my eyes, Mr. Chairman, -- this Government



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appreciates as fully as anybody that British Columbia is part of Canada, that must not be overlooked -- but I say this, that so far as our financial position is concerned, divorced from all solutions of this question which I for the moment am asking you to consider, that British Columbia has an unassailable position that she should have the income tax. Now, that can be torn to pieces as much as you like by saying it is not practical to do it in relation to the other provinces because of results. That is an altogether different position. I realize this position, that the very logic of my argument in connection with the incidence of the tariff, in connection with the customs duties and everything else, the very logic of that is that Ontario and Quebec ought to be contributing in some form to the general revenues more than British Columbia and more than the other provinces. The very basis of that three-fold analysis that I have made is an antithesis of that position, but I say notwithstanding that we have started Confederation on the basis that the only tax available for the province is direct taxation, the experience in British Columbia to-day shows that the only possible source that more revenues can be obtained in British Columbia is by the income tax to be imposed by this Government. Conditions here show it is absolutely essential, and I am getting ahead of my story, because I have got more figures to add up before I start to pull these in together, - show beyond question that if our alleged prior right to income tax in British Columbia is conceded that for the time being at any rate we can take care of our financial position and that we cannot do it without it. Now then you say "How are you going to dovetail that in with the problems of the rest of Canada?" I don't think that is the problem of this province to submit to this



Board, and I think the same position of this Government to take on that is to say this: We think under the establishment of Confederation, we think under the recognition, the very nature of things, that direct taxes must have been primarily for us because it is the only thing we got, that that puts us in the entrenched position that should be ours until somebody submits something that is an alternative.

THE CHAIRMAN: Is not the practical difficulty there, because we have got to look at this from a practical point of view, there is no use our working out a theoretical proposition that cannot be given some effect to, as a matter of fact the Dominion is in the field. That is a fact which, whether we like it or not, we have got to recognize. And, secondly, if the Dominion goes out of the field, it must go out with respect to all the provinces.

HON. MR. FARRIS: I think that is right, I don't see any alternative.

THE CHAIRMAN: Then, where is the Dominion to get the \$150,000,000 worth of revenue or more that she gets from the income tax? We cannot ignore that. We would not be common-sense people sitting here, trying to reach some workable and equitable solution, to ignore that other side of the proposition. And we would like it if you can help us on that because we have got to look at it from every angle. If you can help us we would be glad to have your help.

HON. MR. FARRIS: Well, Mr. Chairman, I am trying to help you to this extent: I am trying to make it as unassailable as I can that on the existing conditions British Columbia suffers a grave injustice. I say first, and I am repeating myself, but I want to give emphasis to it, I say first that taking from this province as much





income tax as you take from all the provinces except the two central provinces, on the face of it, cannot be a sound position. I want to emphasize --

THE CHAIRMAN: Of course, we went over all that this morning.

HON. MR. FARRIS: I know that, Mr. Chairman, but I want to emphasize this because after all this Board has a wide scope and it has a wide organization and it has men of great experience on it, and I suggest, sir, that it ought to be the active mission of this organization to ascertain more fully than I have been able to say it why it is that the income tax works in that way, and I will venture to say it can never be established that it is because the wealth of this province is greater than the combined wealth of the other six provinces.

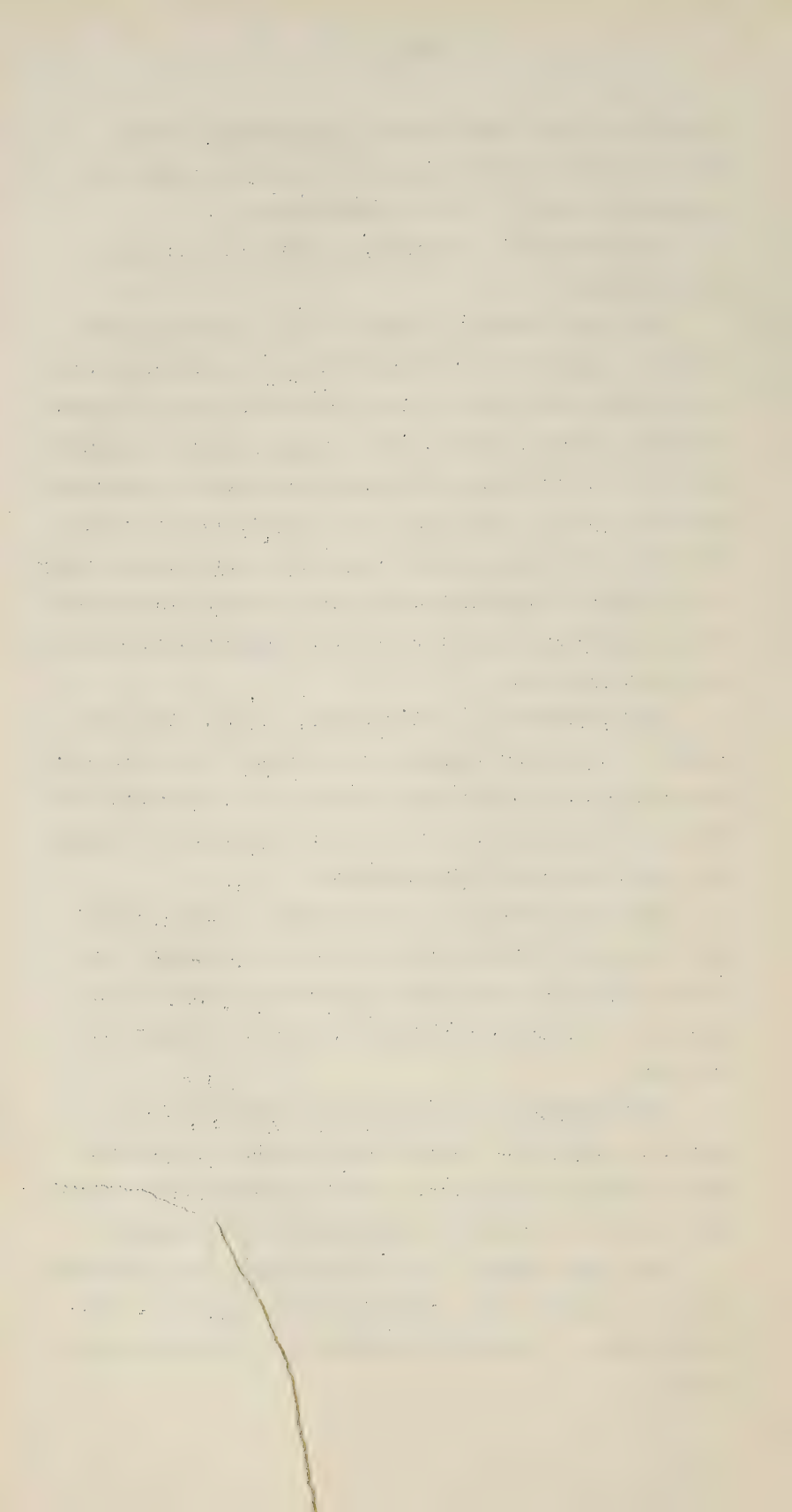
THE CHAIRMAN: No, but Senator, surely, with great respect, is that not begging the question? Is not the real question this, so far as any income tax is concerned, the basis of the income that is taxed and the number of people who fall within the taxing brackets?

HON. MR. FARRIS: If the existing injustice of the tax is its own justification, that may be an answer. But I might say that is the answer regardless of what it is going to cost, that is the result, it does not prove it is right.

THE CHAIRMAN: You may say the income tax is too heavy, it should be reduced and so on, but if you must have a Dominion income tax, it must be admitted that whatever the tax is, it must be the same all over Canada.

HON. MR. FARRIS: I don't know of any other way that it can be applied under the system as we conceive it but I don't think it impairs the position we are taking in the least.





THE CHAIRMAN: I do not suggest it does, but it does deal with the question of whether the Dominion is to surrender the field of income tax. It is one thing, Senator, that you have a bona fide claim to an equitable adjustment in the relations between the provinces and the Dominion, and it is an entirely different position to say the Dominion should surrender the income tax.

HON. MR. FARRIS: But let me put my position as I see it on behalf of the province, and it is this: That so far as the province of British Columbia is concerned the logic of our position is sound, that confined to this province it should be surrendered and the Dominion should get out of the field; and I have not the least doubt in the world that if it was only British Columbia that had to be considered that this Board would agree with that and the Dominion Government would agree with that. But the Dominion says "Admitting all the justice of what you say, admitting the injustice of the present tax in its incidence against British Columbia, admitting the historical significance of this situation and your prior right to this tax, we have got to have it." Well, if that is the Dominion's position I say it is not for us to offer the alternative that will enable them to so invade our field. It should be for the Dominion to offer the suggestion.

THE CHAIRMAN: You are presenting a claim here for equal treatment, that you may be equal or in the same position as the other provinces. We have got to try and work that out and see what is the inequality.

HON. MR. FARRIS: That would apply to the grants.

THE CHAIRMAN: Yes, I thought you were still confining yourself to the grants.

HON. MR. FARRIS: No, I am not confining myself in this presentation to the grants. I say the grants are



unequal, they should be equalized, but this question of the income tax, which is not a question of grants, it is the opposite to grants, it is something taken from us, is even a greater injustice, a greater inequality, and is an impossible condition to continue in this province. Now, I say we are right in that position and as Mr. Pattullo has just said "What are we doing to-day?" We are allowing the Dominion to come in here to tax our natural resources, to take this money out, and at the same time we are borrowing to the tune of \$30,000,000 over this period of years for unemployment because we cannot afford to pay it and that we could pay if it was not for the injustice of the situation. Now then it is not fair in my submission, if that is right - if it is not right then we have not any answer to make at all - if that is right, that you should say "Well, you have got to solve it, what is the alternative?" The alternative does not arise because of our action. The alternative arises because of the predicament the Dominion finds itself in in provinces other than British Columbia. I say the move to solve that must come from the provinces who ought to be all inside looking out. And who is seeking the change? The Dominion.

THE CHAIRMAN: You see, the provinces on the outside are the maritimes. Ontario and Quebec are claiming that they should have their income tax just as you are claiming. They are presenting the<sup>same</sup> claim, I see by the papers.

HON. MR. FARRIS: Well, they cannot surely present it with the same figures we have.

THE CHAIRMAN: Probably not but I mean it is the same claim in substance.

HON. MR. FARRIS: It is the same claim but it cannot be supported with the same argument.

THE CHAIRMAN: I am only pointing out the difficulty



we face, and if you can be of any help to us we would like it. That is, we cannot say that income of over \$100,000,000 should be taken from the Dominion, because the Dominion would be bankrupt, and with the Dominion bankrupt would go the credit of the provinces.

HON. MR. FARRIS: Yes, but it is the Dominion that has created this Commission.

THE CHAIRMAN: No, it is the conditions which existed.

HON. MR. FARRIS: No, it is the Dominion that is the responsible organization that has created this Commission.

THE CHAIRMAN: It is the war and the aftermath.

HON. MR. FARRIS: No, but the Dominion Government has taken the responsibility of issuing the Commission to you, Sir, and your associates as a Dominion undertaking.

THE CHAIRMAN: Undoubtedly.

HON. MR. FARRIS: Now I say it is not fair, if we are right in the position we are taking on this matter, that the Dominion, because it says "We cannot do justice to you in your claim, no matter how just it is, because it will cost us \$100,000,00 or \$90,000,000 somewhere else." And therefore sit back and ask the provinces to make suggestions to solve the problem for the Dominion, which they can shoot at after they get it. It seems to me the very logic of that situation that the solution for that should be offered to this Commission by the Dominion and it should take the lead in that.

COMMISSIONER MacKAY: At the same time you are asking, among other things, that the Dominion take over a large field of government which costs a lot of money. You are asking them to take over unemployment relief and so on.

HON. MR. FARRIS: Yes, I give you my reasons for that.

COMMISSIONER MacKAY: Yes, and you say, take over that and leave income tax alone and take over these extra





duties. That is to say, do a lot more with a lot less income.

HON. MR. FARRIS: I do not say for one moment take over these duties and leave the income tax alone. I say this --

COMMISSIONER MacKAY: No, I beg your pardon, I didn't quite catch your point there.

HON. MR. FARRIS: What I say is this: I say that the Dominion should take over unemployment for the reasons that I will advance when I come to that heading. They should take over certain other services because they properly belong in the field of the Dominion. Incidentally they should take them over because for certain reasons we are entitled to relief and that is the logical way to give it. But when you come to the question of the solution I say the whole thing is in the hands of the Dominion, the Dominion has control of the finances, it has control of currency, it has control of the Bank of Canada.

THE CHAIRMAN: Yes, but it cannot make money.

HON. MR. FARRIS: Well, I don't know about that.

THE CHAIRMAN: You may have inflation, I suppose.

HON. MR. FARRIS: It is amazing what other countries are doing to-day in the world. I say it must come to this position, if we are carrying more of a burden than we can carry and the Dominion is carrying more of a burden than it can carry, something has got to give.

COMMISSIONER MacKAY: But the whole argument there is "Heads I win and tails you lose."

HON. MR. FARRIS: No, I don't think so, Dr. MacKay. I don't want to be frivolous about this nor do I want to appear to be doing this. I am saying this: We are both here, we have no choice but to carry on the services we are carrying on. It is just like an argument I have made





in court on behalf of the B. C. Electric Company in an automobile case: "We are on a fixed track and we cannot get off it. The other fellow has got the rest of the town where he can turn and where he can go. He is mobile and we are not." That comparison comes to me offhand and it may be a crude one but it is exactly the same situation here. We are on a fixed track. The British North America Act has defined what we can do and all we can do. But for the alternative that may have to be turned to if things are as bad as everybody paints them, lies only in the hands of the Dominion Parliament, no other place, and therefore it must be there that the ultimate solution of these questions must come.

COMMISSIONER MacKAY: It does not follow that it must be there. There may not be an alternative.

HON. MR. FARRIS: I said that, of course. It may be we throw up our hands and say there is no alternative. It is one or the other.

(Page 5091 follows)



What I have said, Mr. Chairman, in regard to timber, applies with equal force in regard to minerals. In one sense it has more force because, while timber is wasteable minerals are wasting. On the other hand, we do not know what the resources of British Columbia are in regard to minerals. Undoubtedly, as we believe, their exhaustion is far more remote than is the case with respect to timber.

We now come to the sixth proposition. It is this,

"Six: It is impossible for the province and the municipalities to meet the necessary costs of the administration of government and debt obligations under existing conditions, except by increasing the burden of taxation to an intolerable extent.

#### ANALYSIS OF PROVINCIAL FINANCIAL POSITION

##### A. Current Revenue and Expenditure:

The revenue of the province for the last fiscal year was (Table 124, p. 247) \$28,033,880

The current expenditure was (Table 123, page 241) 25,413,589

This shows an operating profit of \$ 2,620,291

There are two things which must be called to your attention at this point. One is that unemployment relief is not included in that surplus, but is charged to Capital Account, and accounts for \$5,645,378. In addition to that, there are the deferred payments on sinking fund of approximately \$2,500,000.

THE CHAIRMAN: Might I ask whether those are deferred payments for the year?

HON. MR. FARRIS: Yes. I might give you a reference to the deferred payments for more years than the one. I thought I had my finger on it, but for the moment I do not seem to be able to find it. I think it is to be found in Table 108 on page 195 of our main Brief. This table



shows a shortage on sinking fund for the five years, and I think it is important to call attention to this. There has been, as you will notice, very substantial payments made on sinking fund. On the whole, I think, the sinking fund of this province will probably compare favourably with that of any province in Canada. Mr. Hart states our sinking fund is about equal to that of the three prairie provinces, although their combined debt is three times as much as ours.

THE CHAIRMAN: Does this deferred payment on sinking fund indicate that the whole yearly payment has been deferred or only part of it?

HON. MR. HART: Only a small percentage has been deferred. We have provided a sinking fund for the stock held in London and we have kept that up; altogether it is about a quarter of a million dollars a year.

HON. MR. FARRIS: Turning over the page, we read: "An analysis of the source of revenue--"

THE CHAIRMAN: You are now back to your Brief, are you, Senator Farris?

HON. MR. FARRIS: I am back at page 30 of my Brief of Argument, sir.

"An analysis of the sources of revenue shows that of taxes paid by industries in the province, 54.51 per cent is directly based on wasting or wastable assets, and 45.49 per cent on industries having no wastable assets. To this must be added the fact that considerable of the activity in non-wasting asset industries is dependent on the wasting-asset industries (see Part V., Table 100, page 183)."

If you wish to follow that further, it is set out in the main brief at page 183. Continuing:



"These facts must be borne in mind in considering the future sources of revenue of the province and its ability to meet its continuing obligations and needs.

The sources of provincial revenue are shown in Part V., Tables 97 and 98, pages 179-180.

Table 124, page 248, Part V., shows the revenue of the province 1871 to 1937. In each of 40 years there was a deficit, and in 17 years a surplus 9 (see Table 95, page 178.)"

I think we might look at that, particularly at Table 97. It shows an income tax of approximately \$6,000,000, a gasoline tax of approximately \$2,500,000, Succession Duties of a little over \$1,000,000, and timber leases, licences, royalties, all of which I have added up and which amount to around \$2,500,000. There are profits on the liquor sales of approximately \$3,000,000. I think the Dominion makes more out of our liquor business than we make.

THE CHAIRMAN: How much did you say the timber amounted to, Senator?

HON. MR. FARRIS: About \$2,451,000.

THE CHAIRMAN: Thank you very much.

COMMISSIONER MacKAY: What is this land tax, Senator, does the province have a real estate tax on land?

HON. MR. HART: On the wild lands, just in the un-organized districts.

COMMISSIONER MacKAY: Not in the municipalities?

HON. MR. FARRIS: No.

HON. MR. PATTULLO: I would like, just here, to say that the annual tax of farmers in this province is very low.





This is a wild land tax; it includes land, not actually occupied, but held by people who do not occupy it.

THE CHAIRMAN: Taking the farm lands in unorganized districts, what is the basis of taxation on this type of property?

HON. MR. HART: A half of one percent of a reasonable valuation set by the government assessors. The farmers pay a very small tax in the province of British Columbia, and there is an exemption up to \$1500. for the improvement of land and buildings.

THE CHAIRMAN: I think that is lower than in any province which we have yet visited, but I am not sure. Well then, is there any school tax in addition to that?

HON. MR. HART: Yes, there is.

THE CHAIRMAN: On the land?

HON. MR. HART: Yes, on the land.

THE CHAIRMAN: What is the school tax?

HON. MR. HART: It is set according to the requirements of the school district; it varies every year according to whatever the requirements of that particular school district are. It is assessed on the land for that year.

THE CHAIRMAN: Does the school district pay the entire cost or just the cost of the building and upkeep; who pays the teachers salary?

HON. MR. HART: The teachers are paid by the government.

THE CHAIRMAN: Mr. Hart, can you give us an idea of what that school tax on the land, presumably on the assessable value, would be, generally speaking?

HON. MR. HART: It would be less than one half of one



per cent, on the average about one-quarter per cent.

THE CHAIRMAN: Then, the government makes its own assessment of the land?

HON. MR. HART: Yes, it does.

THE CHAIRMAN: What is the basis of the assessment? Sometimes it varies from 20 per cent to 100 per cent of the value, is there any fixed basis, Mr. Hart?

HON. MR. HART: We are supposed to take the cash value of the land, but it is very hard to arrive at that. Those values are adjusted yearly, and we try to see that the adjoining districts have relatively the same value.

HON. MR. FARRIS: You will find some information on that question under the heading of "Education", which begins at page 142 in the main Brief. There are certain tables there, and then at page 147 in the text there is a discussion which might be of assistance in that connection. At page 147, the second paragraph--I don't know whether you wish me to read it or not, but it is a reference for you.

THE CHAIRMAN: No, it is just the reference which I want.

HON. MR. FARRIS: I think this reference will give you the information and will supplement what Mr. Hart has just said.

Now, Mr. Chairman, I have given a statement on the summary of the budget for last year, and on the next page, page 30, of my brief, I now refer you to the subheading B, "Provincial Debt." The details of this appear in the main brief at page 189.

The net provincial debt is \$147,404,785.83. Of this amount, \$28,000,000 has been recently borrowed from the



Dominion for unemployment. In the next paragraph I have attempted an analysis of the municipal financial position in some detail. You can also get some information on that at page 200 in the main Brief and the following pages. From that summary, I add up those different figures because we are now considering the question of whether British Columbia can continue with its appointed capital. Apparently the province has to stand the levies which are being made on it. Provincial expenditures amount to \$23,243,000. for the year 1935-36. They are much more now, but I have taken those figures because I could get them for all of the items of municipal expenditure. The Dominion taxes from British Columbia amounted to \$27,151,000. This makes a total of \$78,836,000. We must deduct from that the amount of the federal grants because this would put some of it on the basis of expenditure, so federal grants should come off. This would leave a total of \$77,211,000. Added to this is the indirect tax imposed on the province by the incidence of the tariff. It is almost impossible to estimate this amount.

Then, sir, I think, although it is not in my Brief, I think this question should be considered, how long can this bleeding process go on? I think there should be considered in the same question the money which goes out of this province by way of interest. Professor Carrothers gives an estimate of that at pages 79 to 81. For the moment, I am not taking the figures. The article goes into some detail as to the somewhat involved process by which he works it out. Professor Carrothers worked it out as being somewhere between \$18, and \$22 million dollars.





If we take into consideration the incidence of the tariff, taxes, and interest, I would not imagine I was far wrong if I should guess that the drain on this province would amount to \$100,000,000. On top of that; "

"An examination of recent provincial budgets indicates that the province must raise an additional annual revenue of upwards of \$10,000,000. The same examination will show that there is no method by which a substantial increase can be made except by an increase in the income tax. The Dominion to-day is taking from this province in income tax over \$8,000,000 per year. British Columbia has been forced, in defiance of the principle that such a tax up to its needs is the primary right of the province, to surrender this amount to the Dominion and borrow substantial portions of it back at interest for unemployment.

A comparison of the provincial tax and of the federal tax shows the extent to which the Dominion has crowded the provinces and municipalities out of the field."

THE CHAIRMAN: Senator, just one moment, you say the budget shows an additional revenue of upwards of \$10,000,000. must be raised, can you indicate what this governs?

HON. MR. FARRIS: Shortage in the sinking fund and unemployment relief are the two outstanding items.

COMMISSIONER MacKAY: Have you any idea, Senator, what the Dominion sales tax takes out of this province?

HON. MR. FARRIS: I have included that in the figures which I have given you, but I do not know whether it was





segregated or not.

THE CHAIRMAN: The Dominion tax is \$27,000,000.

HON. MR. FARRIS: That is intended to include all forms of taxation going out of the province of British Columbia.

COMMISSIONER MacKAY: What page is that on?

HON. MR. FARRIS: It is contained in two places; it is given in the summary at page 30 and it is given in the analysis at an earlier page. It is given also, on page twenty-five. The customs duties collected at British Columbia ports of entry amounted to \$17,217,000. Excise Duties amounted to \$3,050,000. and war tax revenues amounted to \$11,070,000. I am not just sure whether it is excise or war tax which includes the sales tax, but it is one of those two items.

COMMISSIONER MacKAY: Is sales tax included in that war tax revenue?

HON. MR. FARRIS: It is included in one of those items, I think it would be in the \$11,000,000. item. We have that in detail in the main Brief. I think Table 103 on page 187 will show it.

COMMISSIONER MacKAY: It is under "Importations", is it?

HON. MR. FARRIS: That table 103 does show it, does it not, Dr. MacKay?

COMMISSIONER MacKAY: Apparently this sales tax under "importations,"B is it.

DR. CARROTHERS: There is a domestic sales tax in Part IV of that table about the fifth item down.



THE CHAIRMAN: You are going on to deal with the Income Tax, are you not?

HON. MR. FARRIS: Yes, I am continuing at page 30 of my Brief of Argument.

THE CHAIRMAN: It is page 31, is it not?

HON. MR. FARRIS: Yes, at page 31, I quote:

" THE PROVINCIAL INCOME TAX

"The tax of Net Income on individuals and corporations is governed by the Income Tax Act (Chapter 280 R.S.B.C. 1936). The taxation of Banks, Telegraph and Express companies, and the Output taxes on coal and minerals comes under Parts IV., V., VII., and VIII. of the Taxation Act (Chapter 282, Revised Statutes of British Columbia 1936).

Except in the case of Insurance Companies, the taxes on Gross Income and on Output are alternate to the tax on Net Income, and the tax paid on Gross Income or Output applies on account of any greater sum that may be payable in respect of Net Income.

Banks, Telegraph and Express companies are assessed a flat fee for each branch or agency in the Province."

I think that is \$4,000 and ten and five hundred dollars for each branch. Continuing:

In the case of the Net Income Tax, the rates on individual and corporate incomes are the same, except that corporations are not liable to the surtax imposed in 1933. Thus the present rate applicable to corporations is graduated from a minimum of 1 per cent to a maximum of 10 per cent, which is reached when the taxable income exceeds \$19,000. The rates, including sur-tax, applicable to individuals, expressed in percentages of the taxable income, without regard



"to personal exemptions, are as follows."

The rates range from 3 per cent on \$5,000 to 27.77 per cent on \$500,000. Continuing:

"For the fiscal year ended March 31st, 1937,  
the revenue from these sources was:--

Net Income Tax	\$7,416,156.73
Output and Gross Income Taxes	960,896.55
Total Collections	<hr/> \$8,377,053.28
Refunds of 1 per cent. wage deductions	969,425.31
Net Revenue	<hr/> \$7,407,627.97

Of the Net Income Tax collections, 76 per cent  
was from Corporations and 24 per cent from individuals.

The returns assessed numbered:--

146,799 from individuals"

THE CHAIRMAN: Senator, perhaps Mr. Hart could tell us  
whether that 146,799 indicates the number who actually  
paid taxes or the number who made returns. Sometimes re-  
turns are made by those who are not liable, that is, their  
income does not fall within any of the brackets. Does that  
indicate the actual taxpayers?

HON. MR. HART: It indicates the returns assessed and  
upon which tax was paid.

THE CHAIRMAN: What are the exemptions?

HON. MR. FARRIS: The returns would be considerably  
larger than that, for this reason--Mr. Peterson will be  
called and he will explain that. There is a rather com-  
plicated system in connection with a man employed in in-  
dustry. Certain deductions are made, then the exemptions  
are brought in at the end and refunds have to be made.



HON. MR. HART: The first six hundred dollars is exempted.

THE CHAIRMAN: In round figures, what are the exemptions?

HON. MR. FARRIS: \$600. for a single man and \$1,000. for a married man. I think you will get some additional information on that point from Mr. Peterson.

THE CHAIRMAN: It would be interesting if Mr. Peterson could give us the percentage of this tax from individuals, that is, divide the income tax between individuals and corporations so we would know how much is received from each. Then, perhaps, he could indicate to us how much is received from those who are taxed under the provincial tax but who are not liable to taxation under the Dominion income tax that is, from \$1,000. to \$2,000. for a married man, and \$600. to \$1,000. for a single man?

HON. MR. FARRIS: Then, I have some comparable figures on the Dominion Income Tax. "The present rates, expressed in percentages of the taxable income without regard to personal exemptions, are as follows: for corporations it is 15 per cent, and for individuals it goes from 5 per cent on \$5,000. to 56 per cent on \$500,000.

"For the fiscal year ended March 31st, 1937, the revenue collected in this province was \$6,738,986.37.

The following is a comparison of the Dominion corporation tax and provincial tax:"

On taxable income of \$1,000. the Dominion tax is \$150. while the provincial tax is \$10.00. On \$5,000, the Dominion tax is \$750. and the provincial tax \$150. This goes up to \$3,000. for the Dominion tax on an income of \$20,000, while the provincial tax on the same amount is





\$2,000.

Might I ask you to keep in mind that Mr. Peterson has some figures which have a particular bearing upon this subject. He will also give you information on the application of certain exemptions which come under our Act, not only in their theoretical effect, but in their actual application, which should be of some aid to you in this connection. "The effect of the necessary increase in the provincial income tax is indicated by a statement by the finance minister, the Hon. Mr. Hart, in a recent budget speech, the effect of doubling the tax, taking into account the Dominion's levy would be as follows:-- "

It is clear that British Columbia would need double the income tax it has and an indication of what would happen with the Dominion in the income tax field too, is given in the Table at the bottom of page 32, in the Brief of Argument. A person having a gross income of \$5,000 would pay to the province a tax of \$240. and to the Dominion a tax of \$180., making a total tax of \$420. A person having a gross income of \$500,000. would pay a total tax of \$503,944.00, or over \$3,000. more than the income.

COMMISSIONER ANGUS: That is doubling the provincial income tax, but not the Dominion?

HON. MR. FARRIS: Yes, doubling it, and putting it along side the Dominion income tax. This is not done merely to show fancy figures; it is to bring home the actual position the deadlock which exists here in this province, to-day.

Dr. Corrothers, has had prepared at your request, Mr. Chairman, certain information concerning the educational system of British Columbia. This is a comparison between municipal



and rural territory. The expenditures are shown here for thirty-two cities, twenty-four districts and seven hundred and seventeen unorganized districts. I do not know that any purpose will be served by my reading it. I had better put it in as an exhibit and you can look at it.

THE CHAIRMAN: This is for the districts, the school districts throughout the province, is it?

HON. MR. FARRIS: For the cities and rural districts, yes.

THE CHAIRMAN: It might be marked as Exhibit Number 177.

EXHIBIT NO. 177: Comparison between municipal and rural territory, showing expenditures for education.

HON. MR. FARRIS: The second table which has been prepared is a comparison of the per capita customs duties collections in certain provinces and all of Canada for the years 1869 and 1935-36.

THE CHAIRMAN: This will be marked as Exhibit Number 178.

EXHIBIT NO. 178: Comparison of per capita customs duties collections in certain provinces, and all of Canada for the years 1869 and 1935-36.

HON. MR. FARRIS: This concludes, not the first fourteen points, but the six points I have submitted in this form to bring together all the different arguments under these headings.

THE CHAIRMAN: Now, I was going to ask, does that conclude your argument on the point of "Better terms", or are you still going on with that?

HON. MR. FARRIS: The next heading is at the top of the next page, page 33 of the Brief of Argument, and is Unemployment Relief. I put it in under a separate heading. I think it is an argument in favour of better terms, generally speaking. This is true in the case



of British Columbia particularly, partly because of its geographical situation. It is an undeniable fact that people do come here, whether they come here for the climate or whether they come here and find they cannot go any further

In this way, we have an undue burden to bear.

THE CHAIRMAN: What is your conclusion on the whole matter of the question of better terms for British Columbia, to which you claim the province is entitled.

HON. MR. FARRIS: In answering that question, I pretty nearly have to repeat what I have said at least three times this afternoon in connection with the income tax. I believe that is our fundamental difficulty.

THE CHAIRMAN: That is not a rearrangement of the financial basis, that is asking the Dominion to go out of its particular field because you say it is an injustice.

HON. MR. FARRIS: That, in itself, would be the most effective rearrangement for this province. If British Columbia had that, and if the unemployment was taken care of on a basis which we are submitting is sound for the whole of Canada, I do not know how much Mr. Hart would be asking for. I think British Columbia could take care of itself on that basis.

THE CHAIRMAN: Assuming that basis is not feasible, assuming the income tax cannot be entirely withdrawn, what then?

HON. MR. FARRIS: I can only repeat what I have said this afternoon so far as that phase is concerned. I say there are certain other things which should be done, but they are only incidental to the relief we should get. The relief we should get, fundamentally, must be in connection with the income tax.





THE CHAIRMAN: That was not a part of the earlier statement when you asked for better terms; this did not arise until 1917.

HON. MR. FARRIS: That may be, Mr. Chairman; the reasons which were available then, are here now and reinforce our position in what I now say. In addition to that, we say, on the question of grants that a readjustment should be made.

THE CHAIRMAN: I am speaking now on the point of putting you on an equality with the other provinces. This was the first proposition submitted to us, that British Columbia was entitled to consideration which would put the province on a base of equality with the other provinces. Now, what do you suggest?

HON. MR. FARRIS: I suggested this in opening, when you asked me a question about a particular amount, whether we had worked it out in comparison with the other provinces, I said, "No." I doubt very much--I am now expressing my own views, I have not discussed this with the Prime Minister or the Minister of Finance--but I doubt very much the feasibility of making these adjustments merely on the basis of adding up a certain number of figures. I think that is important in establishing a grievance and in showing that inequalities exist, but that is all. When you come to deal with the remedy itself, I think if it is going to be effective it would be better if it were on a broad remedial basis which could be laid down and then let the results work out to the common benefit. Now, working it out in figures is one move towards the equalization of grants, but I think British Columbia is really more concerned in being allowed to work out its own salvation.





without being drained of its assets.

THE CHAIRMAN: Do you think the \$750,000. should be continued, that is one of the things we have to consider? I assume you would say, "Yes".

HON. MR. FARRIS: I do not think anybody would seriously contend that it should not, at least, be continued, because Mr. Bennett was being safe when he gave that to the province. It was a temporary stopgap until a better arrangement could be made.

THE CHAIRMAN: Well, if you cannot help us any further, we will have to leave it there. I thought perhaps you might be able to help us in this matter. It is now four-thirty, so we will adjourn until 10.30 to-morrow morning.

(The Commission adjourned at 4.30 p.m.,  
Thursday, March 17, 1938.)







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